

# The Incorporated Accountants' Journal.

THE OFFICIAL ORGAN OF  
The Society of Incorporated Accountants  
and Auditors



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Letters for the Editors to be forwarded to them, care of the Secretary, as above. Correspondence, copies of reports and accounts, &c., will be welcomed from the profession.

## COUNTY BOROUGH OF WALSALL.

### APPOINTMENT OF BOROUGH TREASURER AND ACCOUNTANT, REGISTRAR OF STOCK, AND CHIEF RATING AND VALUATION OFFICER.

The Walsall Town Council invites Applications from Accountants with special experience in Municipal Accountancy for the appointment of BOROUGH TREASURER AND ACCOUNTANT, REGISTRAR OF STOCK, and CHIEF RATING AND VALUATION OFFICER.

Salary £1,000 per annum.

The gentleman appointed will be required to devote his whole time to the duties of the office, and must be a member of one of the following:—The Institute of Chartered Accountants, the Society of Incorporated Accountants and Auditors, or the Institute of Municipal Treasurers and Accountants.

He must not be more than 45 years of age.

The post will be a designated post under the Local Government and other Officers' Superannuation Act, 1922, and the successful candidate will be required to pass a medical examination by the Council's Medical Officer.

Canvassing members of the Council, directly or indirectly, will disqualify.

Prints of Applications should not be sent in the first instance, but the candidates in the selected list will be allowed to send to the Town Clerk copies of their applications and testimonials for distribution among the members of the Town Council.

Particulars and conditions of appointment and Forms of Application may be obtained from the undersigned.

Applications on the prescribed form, accompanied by copies of not more than three recent testimonials, and endorsed "Borough Treasurer," must reach the undersigned on or before Saturday, October 19, 1929.

HERBERT LEE,

September 24, 1929.

Town Clerk.

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## Professional Notes.

THE International Congress on Accounting opened its sittings in New York on Monday, September 9th, and the proceedings were continued throughout the week. The purpose of the Congress was to discuss current problems, and to determine how accountants may best serve the industrial, commercial, banking and investment interests of the world, as well as the Government of nations, and of lesser political sub-divisions. The foundation of this Congress was laid at the World's Fair, St. Louis, in the year 1904, at the Congress of Accountants held under the auspices of the Federation of Societies of Public Accountants in the United States of America, and the invitations to this first Congress were issued to all public accountants practising in the United States and to representatives of the leading British organisations of accountants. It should also be noted that Mr. E. van Dien was present at the Congress of 1904 in a personal capacity, and it was mainly through his efforts that the International Accountants' Congress was held in Amsterdam in the year 1926.

The delegation of Incorporated Accountants to the Congress was headed by the President, Mr. Thomas Keens, who was accompanied by Mr. Arthur Collins, Mr. E. Cassleton Elliott and Mr. A. A. Garrett, Secretary. Mrs. Keens and Mrs. Collins were also of the party. They proceeded first to Canada, and were given a cordial reception by the Societies of Chartered Accountants in the Dominion, and also by the Canadian Committee of Incorporated Accountants. From Quebec the Delegation went to Montreal, thence to Ottawa, and subsequently to Toronto, whence they proceeded to Niagara, reaching New York in time for the opening of the Congress.

The proceedings at the Congress were opened by the President, Colonel Robert H. Montgomery, who, in according a cordial greeting to the delegates, delivered a short but inspiring address from which we take one quotation as it is apposite to the present time: "I like to think of the term 'accurate' as applied to an accountant as denoting one who *thinks* accurately and who places the balancing of figures as one of the least important of his accomplishments. Unbridled speculation in securities and unsound practices in business always result in demands upon accountants to overstate assets and profits, and to understate liabilities and losses. When others do not keep their feet upon the ground we must do so. The public relies upon us, and has a right to rely upon us, not so much for unreasoning conservatism as for intelligent accuracy."

Our columns contain accounts of the reception of the Delegation of Incorporated Accountants in Canada, and reports relating to the Congress in New York. We are also able to give in full the papers contributed by the President of the Society, Mr. Thomas Keens, on "Legislation and Education for the Accountancy Profession," and by Mr. C. Hewetson Nelson, Past President of the Society, on "Balance Sheets, the Press and the Public." In a subsequent issue we shall report the address of Mr. Arthur Collins, F.S.A.A., on "Local Government Accounting," together with some other papers, a short summary of which we are able to give in this issue. Our own observations on the papers presented, together with the discussions thereon, are necessarily delayed until the complete reports have appeared.

The crisis in the Hatry group of companies came as an unpleasant shock to the public. As we go to press the affairs of these companies are still the subject of investigation. The prompt action of the Committee of the Stock Exchange has given general satisfaction, and has undoubtedly prevented the development of more widely-spread trouble. We cannot but admit that the prestige of the City of London is lowered by happenings such as these, and many business men are far more concerned for the honour and integrity of British commerce and finance than for personal worries and losses occasioned by the *débacle*.

A well known joint stock company has just received from an accountant and auditor ("F.C.P.A., A.I.S.A.") an application to favour him with the audit of their books. Addressing the company as "Dear Sir (or Madam)," he says

"I have a really good knowledge of your particular business, and the type of book-keeping peculiar to itself." After referring to his conscience and confidence as an accountant, he concludes, "If you would grant me an interview, I shall be happy to convince (*sic*) you of the sincerity of the above." The endorsement of the company's secretary is "Sincerity may be all very well, but accuracy is essential."

The following comes to us from a newspaper published in Penang: "From Singapore comes the news that a movement is afoot to bring accountants, secretaries, government officers, book-keepers, clerks, &c., together under one head by admission to the International Accountants' Corporation and Book-keepers' Institute of Australasia (Incorporated) on the basis of exemption; i.e., without examination following the procedure of most English and Overseas Institutes, which in their exemption period, admitted without examination a limited number of persons who could prove their qualifications. This will be good news to the many who, while possessing the necessary qualifications, are not entitled to a degree. On admission to the Corporation, the degree of Incorporated Accountant (S.F.A.I.), will be granted to those who are able to prove a minimum of fifteen years' experience. Other degrees will be granted in respect of the years of practical service. We have no details as to subscription and fees governing membership, but if application is made to the Branch Registrar, I.A.C., Singapore, the necessary information may be secured." We understand that the moving spirit in this International Accountants' Corporation and Book-keepers' Institute of Australasia is a Mr. E. S. Sayer, who appends the following initial letters after his name: "F.I.S.A. (London), F.A.I.S., F.C.I. (Eng.), F.C.A.A., S.F.A.I., F.A.B.I., F.R.Econ.S., T.Dip., I.A.C., T.Dip., I.C. (Eng.) Dip., D.Ps., &c., &c."

We would just issue this warning to English-speaking accountants, secretaries and book-keepers who may be influenced by the "good news" circulated amongst all nations: the designation "Incorporated Accountant" is recognised as indicating membership of the Society of Incorporated Accountants and Auditors. This was confirmed no less than twenty-two years ago by the High Court of Justice in England, and that judgment was followed in the Supreme Court of South Africa as recently as last May.

The Companies Act, 1929, comes into force on November 1st and professional accountants



will have to make themselves acquainted with the provisions of the Act, especially those relating to accounts and audit. Sect. 123 provides that in every calendar year every company must submit a Profit and Loss account and Balance Sheet made up to a date not more than nine months before the date of the meeting, and sects. 124 to 128 contain some very specific particulars as to how the balance-sheet is to be prepared and how the various items therein must be set out. These sections will have to be carefully studied in relation to all company balance-sheets issued in the future, and the article by a legal contributor which we publish this month, together with the opinion of eminent counsel, obtained by the Institute of Chartered Accountants, gives some useful guidance as to the interpretation to be placed upon certain provisions of the Act, and especially as to how far those provisions will affect the duties of auditors.

It should be borne in mind that sect. 129 requires the auditor's report to be attached to the balance-sheet in all cases, there being no provision for making a separate report to the shareholders as hitherto.

Under the new Act there will be four classes of liquidations (1) Winding-up by the Court; (2) Members' Voluntary Winding Up; (3) Creditors' Voluntary Winding-Up, and (4) Winding-Up under the supervision of the Court. The chief difference is the division of voluntary winding-up into two classes. In a member's voluntary winding up the control will be in the hands of the shareholders, who will appoint the liquidator and fix his remuneration. In a creditors' voluntary winding up the control will substantially be in the hands of the creditors. When a meeting is being called by a company for the passing of a resolution to wind up voluntarily, a meeting of creditors must be convened simultaneously and held on the same day as the meeting of the company or on the day following, and if the two meetings nominate different liquidators the nomination made by the creditors shall prevail unless an application is made to the Court. In the same way the creditors may appoint a Committee of Inspection and their appointment shall supersede any appointment of a committee made by the members, unless an application is made to the Court and the Court otherwise directs. The liquidator's remuneration in this case is to be fixed by the Committee of Inspection, or if there is no committee then by the creditors.

The Finance and Taxation Committee of the Association of British Chambers of Commerce has issued a memorandum in relation to the recommendations of the Royal Commission on Income Tax. Amongst the matters discussed are depreciation and obsolescence. The Committee are not in accord with the Commission in the view expressed by them that no allowance should be made in the case of "inherently wasting material assets" with an estimated life of 35 years or over. The Committee think there should be no time limit, and that all assets of this character should have a reasonable allowance for wastage, on the ground that the capital outlay on such assets is merely a payment in advance on revenue account. In any event they contend that a longer limit than 35 years should be allowed, as otherwise such assets as factory buildings would be excluded.

As regards obsolescence, the main point—and one which we have drawn attention to on more than one occasion—is that, although allowance for obsolescence is made in principle, it is withheld in all cases where the assets have not been replaced. This is obviously quite inconsistent and unfair, because the ground on which the allowance is made is that the depreciation allowance in the past has not been sufficient to absorb the capital value of the asset within the term of its effective life. The question whether the asset is to be replaced in the future does not enter into the calculation. For instance, economies may be effected whereby the number of vehicles used in a business may be reduced in number and the business still carried on as before, but that does not alter the fact that if one of the vehicles has become obsolete and does not require replacement, the whole effective life of that vehicle has already gone into the working of the business.

Another common ground of complaint is that costs of removal are allowed only in regard to stock and not in respect of plant. Removals are not undertaken except for some very good reason, and it is most inequitable that the whole of the cost should not be allowed as a business expense for taxation purposes whether the removal is voluntary or compulsory. In many cases the removal is occasioned because larger business premises are required. The Inland Revenue take advantage of the increased profits which are earned in the new premises, but inconsistently refuse to allow part of the cost incurred in moving into those premises. The question of whether the removal is compulsory or voluntary does not appear to us to have any logical bearing

upon the matter. To say that any part of removal expenses is a capital outlay is nothing less than ridiculous.

Some discussion has been taking place recently as to whether a company registrar is justified in certifying a transfer in which the name of the transferee has not been inserted. The general view appears to be that such a transfer should not be certified except in special cases. It is suggested that hardship might arise where shares are hypothecated as security for a loan, in which case the lender does not want to take the shares into his own name unless there is default by the borrower. It does not seem to us, however, that this should afford ground for any exception, because the share certificate can always be split and the actual number of shares required to be pledged entered on a separate certificate, which can then be attached to the blank transfer. It has been urged that the effect of certifying a blank transfer is really to create a bearer security, because the company does not know in whose name the transfer may ultimately be presented, and it may in the meantime pass through several hands. This does not appear to be quite logical, because the same result can be achieved by executing a transfer with the transferee's name omitted and attaching the share certificate.

The Chief Registrar of Friendly Societies, Sir Stuart Robertson, speaking at the national conference of Friendly Societies held last month, said: "While no one objected to unnecessary Government interference more than he did, he suggested that branches of Friendly Societies should employ qualified auditors wherever practicable. He had been much distressed by some cases of defalcation. He had known cases where a blind man was an auditor, where the auditor could not write, and where he could not read. He had also known a case where the auditor had to check certain figures and to sign his name where he was told, while the secretary supplied him with refreshments. He had seen it stated that the independence of Friendly Societies would be interfered with, but the only difference would be that a qualified man would be appointed instead of an unqualified one."

It is announced from Japan that a Departmental Ordinance has been issued exempting from Income Tax and from duties on business profits all vessels registered in Great Britain, as well as British shipping companies and their agents. The Ordinance is to be retrospective as from May 12th last.

## Auditors' Duties under the New Companies Act.

THERE can be no doubt on the part of those who have experience of company administration that the sections of the Companies Act, 1929, bearing upon the duties of auditors will prove in practice to be among the most important of the changes which the statute embodies. The thirteen sections, 122 to 134, to which attention may be directed, are provisions of the Act with which every auditor, if he has not already done so, ought to make himself textually familiar. Sects. 124 to 128 are those dealing with the form and contents of balance-sheets. In settling these, Parliament has broken through a tradition followed by most company directorates. The practice has varied, but the tendency has held its ground to present published accounts in a form preferably summary. It is in regard to this tendency that in many cases the opinion of auditors has differed from that of the board. Short of mis-statement, the form of the balance-sheet was left by the Act of 1908 a matter of discretion, and the discretion was that of the directors, subject to the shareholders' over-riding control. On the latter, in effect, the Act relied. In the new Act the segregation of items is definite, but for that purpose, while the obligations of auditors become more onerous, their effective powers have, in equal degree, been increased. For the future, it will be out of the question for auditors to report that the balance-sheet has been properly drawn up so as to exhibit a true and correct view of the company's affairs, and at the same time to make themselves parties to disregarding any one or more of the distinctions which the Act lays down.

There is, to begin with, the main distinction on the credit side between fixed assets and floating assets, plus the separate statement of the value, if any, carried in the books of goodwill, patents, and trade marks. No two of those three main items can be rolled together. Further, any depreciation written off the fixed assets must be separately shown. Apart, again, from any of them, are investments outside the company's own direct business. Under that head investments in subsidiary companies must be distinguished from others; and loans to and balances due from subsidiaries stated separately from investments in them. Here, apparently, taking the plain language of the statute, "loans" means floating loans, and "investments" debentures or shares held. The item of investments, it will thus be seen, is broken up into at least three constituent parts. Next, in respect of "debtors," loans to



directors and officers of the company must be shown separately from other balances outstanding; and separately also, any loans to employees for the purchase of shares. This last is the one case in which a company (not carrying on a banking business) is authorised by the Act to lend money for the purchase of its own shares.

Coming finally to the item "preliminary expenses," so far as they have not been written off, discount on shares issued and commissions paid for obtaining subscriptions for shares, must be stated separately from other preliminary and formation charges. Altogether, on the assets side these requirements make up ten distinctions, nearly all of which in practice hitherto it has been in one instance or another the usage to ignore.

On the liabilities side are six distinctions, three relating to capital, and three to creditors. The first three are the separate statement of redeemable preference share capital (if any), whether authorised or issued; the separate statement of issued share capital (if any) on which, with the permission of the Board of Trade, dividends are being paid pending construction of works, &c.; and the statement separately from other debenture debt of re-issuable debentures. By the second group of distinctions, the item "creditors" is broken up into four possible components—secured creditors; unsecured creditors; amounts due to subsidiary companies; and amounts (if any) due to directors, representing borrowings from them, or fees and emoluments owing.

The Act (sect. 123 (3)) puts upon directors the responsibility of complying with these requirements, for the accounts of a company are the directors' accounts, but, although the statute does not expressly state that auditors must insist on the distinctions being complied with, there can be no doubt that were any question to arise of the auditors knowingly and wilfully making themselves parties to an ignoring of the provisions, the words of sect. 134 (b) would be read by the Court in the light of the preceding sections.

Sect. 134 (b) is in the same terms as the Act of 1908, that is, that the auditors in their report must state whether, in their opinion, the balance-sheet is properly drawn up so as to exhibit a true and correct view of the company's affairs according to the best of their information and the explanations given to them and shown by the books of the company. But these words have not the same import in the new Act as in the Act of 1908. To be properly drawn up so as to exhibit a true and correct view of the company's affairs, the balance-sheet, under the Act of 1929, must comply with that Act. Can auditors, therefore, aware

that it does not comply in all respects, certify without qualification that it is properly drawn up? Obviously, without making themselves parties to the default, they cannot. Consequently then, where there is default, and directors refuse to rectify it, the auditors will have no choice but to point out the non-compliance in their report. In practice, save in very exceptional cases, this will be sufficient to ensure compliance.

In this connection, the requirements of sect. 128 merit particular attention. The section lays down that the *accounts* which, in pursuance of the Act, are to be laid before every company in general meeting, must show (1) the amount of any loans to any director or officer of the company during the accounting period, including any loans repaid, whether made by the company itself or by any person under the company's guarantee; (2) the balance of any such loans (of any date) outstanding, and (3) the total amount paid to directors as remuneration for their services, inclusive of all fees, percentages, and other emoluments, receivable from the company or from any subsidiary company (exception being made of the salary of a managing director, or that of any other director holding a salaried employment in the company). And sub-sect. 128 (4) goes on to say:

If in the case of any such accounts as aforesaid, the requirements of this section are not complied with, it shall be the duty of the auditors by whom the accounts are examined, to include in their report on the balance-sheet of the company, so far as they are reasonably able to do so, a statement giving the required particulars.

One of the points to be noted in this section is the use of the word "accounts" as distinct from the balance-sheet. The distinction is, without doubt, deliberate. "Accounts" include for this purpose the profit and loss statement, now made compulsory. Hence for the first time auditors have put upon them, if the profit and loss account laid before shareholders does not separately show the total of the emoluments paid to directors, the duty not merely of calling attention to the omission, but of supplying it. That duty is direct and imperative. It means that, if not supplied, the information and explanations necessary must be sought for, and should they be refused the plain inference is that the refusal must be recorded in the auditors' report.

With the foregoing observations in mind, the points covered in the important joint opinion on auditors' duties under the Act recently given by Mr. Wilfrid Greene, K.C., Mr. Cecil W. Turner, and Mr. Walter Monckton, at the instance of

the Institute of Chartered Accountants, will be more readily appreciated. The joint opinion was sought on those provisions of the Act directly or indirectly concerning auditors where a question as to the scope or effect of the enactment might be raised, and provisionally, at all events, the pronouncement goes a long way towards clearing up incidental doubts.

The Act, it will be observed, does not attempt to define fixed assets or floating assets. Definition, should it prove necessary, is left to the Courts. Meanwhile, the words stand with the ordinary meaning attached to them by business men. There are, it is well known, some assets which might be put in either category. In regard to these, classification has been left discretionary. Counsel, in view of this, have been asked whether it is, in their opinion, necessary that the assets in the two groups should be labelled "fixed" and "floating" respectively. They have replied that it is not, and the reply is in accord with the settled rules of interpretation that words should not be read into an Act which are not in it. But they add, and advisedly, that where there is doubt as to whether an asset is fixed or floating, the method of valuation should be given. Without question, that is the better course. It is also, as they advise, the better interpretation of the section (124) to show in the case of each particular fixed asset, or group of assets, the basis of valuation adopted. While there is no direct compulsion in the Act to break up the item fixed assets into its components, the grouping has to be read subject to valuation basis requirements. If, for example, the valuation basis of land and buildings is different from that of plant and machinery, as it usually is, and the difference cannot be shown without the item being split, the item, in order fully to comply with the Act, should be split.

The next point of importance covered by the joint opinion is whether, for the purposes of sect. 125, amounts due from subsidiary companies should or should not include debentures issued by them in favour of the controlling company. The words of the section are that the aggregate amount of assets consisting of shares in, or of amounts owing by, a subsidiary or subsidiaries (whether the amounts owing are on account of a loan or otherwise) must be set out on the balance-sheet "distinguishing shares and indebtedness." If the Act had said "distinguishing shares and debentures from other obligations" to the controlling company, there would have been no difficulty. It has already been suggested (*supra*) that "loans" mean floating loans, and "investments" debentures and shares. A controlling

company does not usually want a subsidiary's debentures for short term advances. As to this, the joint opinion agrees that debentures might strictly be included under "amount owing," but it advises that "it will in practice be desirable to show them separately." That would be the better procedure. The advice also to distinguish between the nominal amount of subsidiary company debts and the net book value is equally sound. To include bad and doubtful subsidiary company debts at their full nominal value obviously does not present the true position.

Another change in the Act, which will be shaped out in practice, is the statement, signed by the directors who sign the balance-sheet, to be annexed to the balance-sheet showing, in total, how the profits or losses of subsidiaries have been dealt with in the accounts. On this three questions have suggested themselves. The first is: Do subsidiaries for this purpose include foreign subsidiaries? The second is: Can the statement be regarded as incorporated in the balance-sheet on which the auditors have to report? and the third is: Are the auditors under any obligation to satisfy themselves that the statement is correct? To the first of these questions, the joint opinion replies affirmatively. It is the better reading of the enactment (sect. 126). The section draws no distinction between subsidiaries registered in this country and subsidiaries registered and carrying on business abroad. To the second question the reply is negative, and for that reply there are two grounds. The first is that the provision requiring the statement to be signed by the directors who sign the balance-sheet of set purpose throws the responsibility on them; the second that "annexed to" does not mean "incorporated with." The statement is an annexe, though a necessary annexe. Therefore, counsel rightly advise that the statement should be printed below the auditors' certificate "in order that auditors may not assume responsibility" in respect to it. To the third question, the joint opinion also gives a negative answer. "We do not," the three practitioners say, "consider that they (the auditors) are bound to satisfy themselves that the statement is *prima facie* correct, or to point out any inaccuracy to the directors, or to bring to the attention of the shareholders any difference of opinion between the auditors and directors as to the accuracy." That, as regards the statement itself, is definite. What, however, will be the position should there be an error material enough to affect the profit and loss balance carried to the balance-sheet? With the annexed statement the auditors are not concerned; with the difference in the profit and loss



balance they are. Can they certify without calling attention to the difference? To do so would clearly be incurring risk. Indirectly, this would seem to be a guarantee that the statement is accurate so far as possible. As we have already said, the matter, like others in the Act, remains to be shaped out in practice.

The further point has arisen as to whether or not the profits or losses of subsidiaries mean the profits or losses ascertained within the controlling company's annual accounting period. The joint opinion says that they are, and that appears to be the substantial meaning and intention. The words (sect. 126 (1)), "for the purposes of the accounts of the holding company" may safely be taken to mean the accounts to which the statement is annexed.

One of the provisions of the Act, which has attracted public attention, is sub-sect. 134 (3), laying down that "the auditors of a company shall be entitled to attend any general meeting of the company at which any accounts examined and reported upon by them" are submitted, "and make any statement or explanation they desire with respect to the accounts." The joint opinion looks upon this "as conferring a right which will only be exercised in very exceptional circumstances—where, for example, a serious state of affairs is being concealed by the directors from the shareholders." But that view, with all due respect, is really an *obiter dictum*. The right, it will be observed, is statutory, both as regards attendance and the making of any statement or explanation. The latter is left entirely to the auditors' own judgment and discretion. In saying that the statement or explanation would not relieve auditors from responsibility for omissions in their report, the joint opinion palpably states the sound view. Explanations at the meeting would not cure a defective report. The report, once given, stands, and it would be stretching the statute to suggest that the report would lie open to later verbal qualification. At the same time, supplementing or amplifying the report is not without difficulty. Evidently it is with that difficulty in mind that the joint opinion advises auditors, as the more prudent course, not to answer questions from shareholders without the permission of the board. On the other hand, as a matter of right, it is open to them to correct wrong information given by a director concerning the accounts, and it would, if they are in attendance, as counsel suggest, be unwise for them not to do so.

It seems clear that whether the right will be exercised only in very exceptional circumstances,

or normally and generally, is another matter which will be decided by practice, and the attitude and feeling of directors and shareholders. There is nothing in the Act to suggest that the attendance of the auditors should be taken as indicating lack of confidence in the board. With equal strength of inference, their absence might be so interpreted.

Are auditors under the Act officers of the company? To that much debated question the joint opinion answers that for some purposes they are, and for some purposes they are not. The reply is evidently the correct one. But an important explanation is added. It is pointed out that in sub-sect. 365 (2), the expression "officer who is in default" is defined as meaning any director, manager, secretary, or other officer, "who knowingly and wilfully authorises or permits the default, refusal or contravention mentioned." Hence in any section the term "officer who is in default" imports "knowingly and wilfully."

This bears upon other questions raised. Will auditors whose names appear on an unregistered prospectus be liable to the penalty enacted in sub-sect. 34 (5)? The reply is: Not unless they are knowingly parties to the illegal publication. Will they be liable to the penalty under sect. 44 if their report appears attached to a balance-sheet which fails to show preliminary expenses and commissions not written off? Again the reply is that they must have knowingly and wilfully authorised and permitted the issue of the balance-sheet. Were it altered in the printing after they had certified it, they would have a complete defence. Would they be liable under sub-sect. 129 (3) if a balance-sheet were sent out without their report attached? Only if they made themselves parties to the omission.

Sects. 271 to 277 are those which deal with offences antecedent to and in the course of winding-up. For the purposes of these sections, the joint opinion considers that an auditor is an officer of the company within the ambit of his duties. Subject to the definition of "officer who is in default," that is the safer and better reading.

As sub-sect. 275 (5) includes in the term director "any person in accordance with whose directions and instructions the directors of a company have been accustomed to act," the question has been put as to whether or not this includes an auditor. Sect. 275 deals with the personal responsibility of directors to creditors if convicted of fraudulent trading.

Having regard to the extended meaning of "director" for this purpose, it is advisable to

be clear that it does not include an auditor who keeps within his duties. The joint opinion maintains that it does not. The suggestions and opinions of an auditor, acting as auditor, are not "directions and instructions," and *a fortiori*, they are not the directions and instructions aimed at in the Act.

Generally and finally, in regard to the form of the accounts, the joint opinion advises auditors "to call attention to any failure on the part of the company to comply with statutory requirements." It has already been pointed out above why this advice should be followed.

## Dates of Commercial Contracts.

THE importance of accuracy of date of commercial contracts was emphasised in the recent case of *Finlay v. Kwik Hoo Tong Handel Maatschappij* (1928, 2 K.B., 604), affirmed in the Court of Appeal (1929, 1 K.B., 400), where Mr. Justice Wright held that the seller under a c.i.f. contract is bound to procure and tender to the buyer a bill of lading which shall correctly state the date of shipment.

A seller under a c.i.f. contract, under which delivery was to be made in a specified month, tendered to the buyer a bill of lading in which the date of shipment was incorrectly stated. The shipment did not in fact take place in the month specified in the contract, and the buyer, being deprived of his right to reject the tender of documents, was entitled to damages for the breach by the seller of his obligation to deliver a correct bill of lading. The measure of the damages in such a case is the difference between the market price and the contract price of the goods sold where the contract price is higher than the market price.

The buyer is entitled to rely on the accuracy of the bill of lading date, and to regard the seller as impliedly guaranteeing its accuracy, unless there are express terms in the contract to the contrary. If that were not so, the buyer would in most cases be left without any effective remedy in respect of most serious losses sustained by him through misdated bills of lading. The buyer has the right to reject the tender of documents and refuse to pay the cash or accept the draft, if the shipment is not made in the contract month. The effect of misdating the bill of lading is to deprive him of that right by rendering its exercise impossible, if he relies, as in practice he generally must rely, and in law is entitled to rely,

on the accuracy of the bill of lading date. He takes delivery of the goods and pays for them, because on the face of the bill of lading he is bound to do so under the contract, whereas if the bill of lading showed, because it was a true document, that the seller could not enforce the contract, because the shipment was out of date, the buyer could and would refuse the tender and could obtain the same goods at their market price, which might be lower than the contract price.

In regard to bills of exchange, the Bills of Exchange Act, 1882, sect. 64 (1) provides that where a bill is materially altered without the assent of all parties liable on the bill, the bill is avoided except as against a party who has himself made, authorised, or assented to the alteration, and subsequent indorsers. This, however, is subject to the proviso that where a bill has been materially altered, but the alteration is not apparent, and the bill is in the hands of a holder in due course, such holder may avail himself of the bill as if it had not been altered, and may enforce payment of it according to its original tenour. An alteration in date is regarded as material by sect. 64 (2).

In *Woollatt v. Stanley* (1928, 138 L.T., 620), the bill was originally dated September 7th and was payable at three months, but by reason of a breakdown in the discounting arrangements the date was altered first to September 17th and then to September 27th. The holder relied on the test suggested in *Leeds and County Bank v. Walker* (1883, 52 L.J., Q.B., 590), viz, that it would be for the party to be held liable to examine the bill, and if he could point out an alteration to which the holder thereupon agreed, that would constitute an "apparent" alteration. In the latter case it was suggested that the word "apparent" did not mean that the holder only should not have had the means of detecting the alteration. If the party sought to be bound could at once discern by some incongruity on the face of the bill, and point out to the holder that it had been materially and fraudulently altered, the alteration would be an "apparent" one, even if it was not an obvious one to all mankind. The test suggested was for the party who was to be held liable to examine the bill, and if he could then point out to the holder that it had been altered, and if the holder agreed after it had been pointed out to him, then that constituted an "apparent" alteration. The person who was called upon to pay, on looking at the document presented to him would see that there had been an alteration, but it would not necessarily follow that this was an "apparent" alteration.



This test was not followed in *Woollatt's* case, and the test applied was: Is the alteration of such a kind that it would be observed and noticed by the intending holder when he scrutinises the document which he is contemplating and examines it as a negotiable instrument? If the intending holder in scrutinising the document with reasonable care would observe that it had been altered, then that would constitute an "apparent" alteration. It was held that an alteration is "apparent" within the meaning of sect. 64 (1) of the Act of 1882, if it is of such a kind that it would be observed and noticed by an intending holder scrutinising with reasonable care the document which he contemplates taking.

The Privy Council in *Hong Kong and Shanghai Corporation v. Lo Lee Shi* (1928, A.C., 181), held that sect. 64 relates only to alterations effected by the will of the person by whom or under whose directions they are made, and that it does not apply to a change accidentally made.

## UNEMPLOYMENT INSURANCE ACT, 1929.

WHEN reviewing the Unemployment Insurance Act, 1928, in our issue of February last, it was stated that the measure, which increased the borrowing powers of the Unemployment Fund to £40,000,000, was only a temporary provision up to December 31st, 1930, when the finance of the Fund would require a further Parliamentary review. It was hoped that before that date the Fund would have so improved that reversion to the loan of £30,000,000 from the Treasury, provided for in the 1922 Act, could have taken place. Unfortunately the converse has been the case, as at June 29th, 1929, the debt of the Fund was £36,620,000 and action of some sort was absolutely necessary. The step taken was the passing of the Unemployment Insurance Act, 1929. This was practically an agreed measure by all parties, which passed Parliament without any real controversy, and doubtless embraced the views of expert official opinion. Another loan was out of the question, although the expedient of this Act, with increased contributions from employer and employee, has been alternated with increased loans from time to time, since the chequered career of the Fund started with the comprehensive scheme embodied in the 1920 Act.

To understand the 1929 Act clearly, it must be remembered that the Revenue of the fund is provided by contributions paid by the employer in respect of each insured person, by contributions paid by that person, and to a lesser degree by moneys provided by Parliament. The last mentioned amount consists of a contribution by the Exchequer in respect of each insured person. The total annual revenue of the Fund at the passing of the 1929 Act was about

£48,000,000, of which £31,000,000 came from the combined contributions of employer and employee and £12,000,000 from the Exchequer. This revenue was sufficient only to cover the expenditure arising from an average live register of about one million insured persons, whereas the figures approximate to quite an average of one hundred thousand more receiving benefit.

The new Act increases the contribution from the Exchequer to one half of the aggregate contributions of employer and employee, which was a recommendation of the Blanesburgh Committee, in so far that they advised that the share of the State should be one-third of the full contribution. At the same time, however, they recommended that each of the three parties to the insurance should pay an equal amount, whereas the employer pays the most. As an example, take the contributions in respect of men. (The ratio is approximately the same with the other classes insured.) The contributions were:—Employer 8d., employee 7d., Exchequer 6d. weekly. Under the 1929 Act the following proportions will rule:—Employer 8d., employee 7d., Exchequer (as from April 1st, 1929), 7½d. weekly. The effect of this will increase the annual Exchequer contribution to the Fund by about £3,500,000.

Postulating that in modern sociology unemployment insurance cannot be dispensed with, a compulsory scheme where the State is responsible for the administration must involve some contribution from the Exchequer, but it should be noted that up to now the larger proportion of the revenue has invariably come from the combined contributions of employer and employee.

It may be interesting to recall the Government contribution to revenue from the inception of Unemployment Insurance with the 1911 Act (which Act only included a few trades, and contributions on pre-war values were low) up to the present day.

Under the 1911 Act the share was one-fourth of the full contribution, under the 1920 Act one-fifth, under the 1922 Act rather more than one-fourth, and under the 1925 Act as amended by the Economy Act of 1926 between one-third and one-quarter, which share has remained until the passing of the Act now under review.

While the Press from time to time call attention to the huge sums paid out in benefit, it is pertinent to observe that up to the present these abnormal amounts have not been a direct charge against State Revenue, but have been met by loans from the Treasury. Borrowing powers were limited to £10,000,000 by the 1921 (No. 1) Act, but circumstances have caused periodical increases on this amount till it reached £40,000,000 by the 1928 Act.

These loans bear interest payable out of the Unemployment Fund, and so far the rate of interest has been slightly less than 5 per cent. per annum. It will be seen that the Fund is becoming heavily weighted in various ways, and that the interest now payable is in the region of £2,000,000 per annum.

Although the Fund was based on actuarial values, it must be remembered that prior to the 1920 Act, the finance of the scheme had never been seriously tested, as the 1911 Act included only a few trades, such as building, shipbuilding, and engineering, in which at that time about 2,250,000 manual workers were engaged. The war intervening with practically no unemployment, and the above trades so increased in numbers by munition workers who were brought in by the 1916 Act, it is easy to understand the difficulty experienced in arriving at reliable actuarial bases. With the inclusion of those insured under the 1916 Act the number insured increased to 4,197,000. The Act of 1920 brought in every trade likely to have seasonal periods of unemployment, and the number insured rose to eleven and three-quarter millions.

The Fund has never had a real chance, as almost concurrently with the passing of the 1920 Act came not only a trade slump but also the industrial disputes of 1921. Abnormal expenditure occurred before revenue had been collected, hence the resort to loans in order to meet adverse balances. Following the bad year of 1921, some of the succeeding periods were becoming very fruitful in revenue, but the troubles of 1926 were a great setback. The deficit in the Fund had been reduced to £7,100,000 in April, 1926, but by December of that year it had increased to over £21,000,000.

The above figures are illuminating as showing the effect that abnormal periods of unemployment have upon the Fund. On the other hand, after a period when unemployment was negligible during the war years, the balance in favour of the Fund at Nov. 1919, amounted to £18,900,000, which by the end of 1920 had increased to £21,200,000.

Thus it is easy to appreciate the difficulties of any scheme of insurance against unemployment. A serious factor to be taken into consideration also is that in a time of abnormal unemployment the expenditure in benefits is exceptionally heavy and administration expenses automatically rise, while at the same time the contributions of both employer and employee cease in respect of persons out of employment, so that a loss occurs both ways.

Given a normal period of employment, the Fund should not be a charge to the State, apart from the Exchequer's share as provided by the Act, but undoubtedly all political parties, as well as permanent officials are beginning to see that action will have to be taken in regard to the loans which have been made to bring the Fund into some degree of solvency.

It should always be remembered that the scheme includes only trades with known seasonal periods of unemployment, so there will always be a certain number of persons in receipt of benefit, at different periods of the year.

Sad as the reflection may be, in no country and in few trades is it possible to guarantee 52 weeks busy time in the year. Seasonal factors and unforeseen circumstances intervene.

## COUNSEL'S OPINION ON THE COMPANIES ACT.

The following is the joint opinion of Mr. Wilfrid Greene, K.C., Mr. Cecil W. Turner, and Mr. Walter Monckton, obtained by the Institute of Chartered Accountants in England and Wales, and referred to in our leading article this month on "The Duties of Auditors under the New Companies Act" :—

(1) Section 124 (1).—It is not in our view necessary to label the assets in groups as fixed or floating, but since the section requires that in the case of fixed assets the methods of valuation shall be stated, the method of valuation should be given in all instances where there is doubt whether the asset is fixed or floating. Moreover, the balance-sheets must be so drawn as to indicate in the case of each particular fixed asset or group of assets the basis of valuation adopted in regard to that asset or group.

(2) We do not doubt that for the purposes of Section 125 loans include debentures. We agree that debentures might strictly be included under "Amounts Owed," but that it will in practice be desirable to show them separately. We think that the nominal amount and the book value and the method of valuation should be stated in the case of amounts owing from subsidiaries and the nominal sum owing in the case of amounts owing to subsidiaries.

(3) Although there is in the Act no specific reference to foreign subsidiary companies we are of opinion that such companies are subsidiary companies within the meaning of Sections 126 and 127. We do not consider that a distinction must be made between Subsidiary Companies registered in Great Britain or a Parliamentary Company and Subsidiary Companies registered abroad.

(4) In our opinion accounts in Section 126 (3) means profit and loss accounts year by year, and the statement to be annexed to the balance-sheet has to take into account and deal with specifically profits and losses of subsidiary companies for the particular year or period of their accounts ended within the year for which the holding Company's accounts are made up, or failing such for the period covered by the last accounts available.

(5) Section 126 (2).—The drawing up of and responsibility for the statement to be annexed to the balance-sheet are matters for the directors. In our opinion the statement is not incorporated as part of the balance-sheet upon which the auditors are required to report nor are the auditors responsible for the accuracy of the contents of these statements. We see no objection to the statement which has to be "annexed" to the balance-sheet appearing in the form of notes printed on a Profit and Loss Account or on a balance-sheet, or on both, but if this course is adopted the notes should follow the auditors' certificate in order that the auditors may not assume responsibility for the statement. Apart



from any such assumption of responsibility, we are of opinion that the auditors are not in any way responsible for checking the accuracy of the statement. We do not consider that they are bound to satisfy themselves that it is *prima facie* correct or to point out any inaccuracy to the directors or to bring to the attention of the shareholders any difference of opinion between the auditors and directors as to the accuracy of the statement. Of course in so far as profits or losses of a subsidiary are taken up in the accounts of the holding company the matter comes within the scope of the ordinary functions of the auditors of the holding company as such, and will be covered by their report.

(6) We regard Section 134 (3) as conferring a right which will only be exercised in very exceptional circumstances, e.g., where a serious state of affairs is being concealed by directors from the shareholders. A statement or explanation made under the sub-section would not relieve the auditor from responsibility for omissions in his report or the balance-sheet. We are of opinion that auditors who avail themselves of the right conferred by the sub-section will not be bound to answer questions by shareholders, and we think that they would be wise to refrain from doing so, particularly without the sanction of the Board. We do not consider that an auditor incurs any responsibility by absenting himself from an annual general meeting in respect of questions raised at the meeting upon which his views might be asked, whether or not his views would have placed the facts before the shareholders in a different light from that conveyed to them by the directors. But an auditor who was present at a meeting would be most unwise, in our opinion, not to correct wrong information given by a director in regard to an item in the accounts or in respect of matters arising out of the auditors' report.

(7) It is plain that auditors are for some purposes to be regarded as officers of the Company, but Sections 133, 136 and 372 show that they are not regarded as officers for all purposes. In the case of the defaults, refusals and contraventions referred to in most of the sections to which we are referred, the auditors could only be held liable if included in the expression "officers who are in default." The expression "officer who is in default" is defined in Section 365 (2) as meaning any director, manager, secretary or other officer of the Company who "knowingly and wilfully authorises or permits the default, refusal or contravention mentioned." In other words, the expression "officer who is in default" in the Act imports "knowingly and wilfully," whether or not these last words are expressly used in any particular section. But even apart from these words the auditors could not in our view be said in any ordinary circumstances to have "authorised" or "permitted" the defaults, refusals and contraventions mentioned in the sections to which we refer, viz, Sections 7, 23, 27, 37, 43, 45-47 (inclusive), 51, 52, 54, 73, 81, 92, 93, 95, 96, 98, 103, 104, 110, 118 [unless as liquidator under sub-section 7], 130, 153, 226 [unless as liquidator under sub-section 2].

It is desirable to add, in regard to two of the above sections (a) that in our opinion a Chartered Accountant, who has merely perused the prospectus and consented to the appearance of his name as auditor of the company, could not be said to have authorised the issue of the prospectus within Section 37 (1) (d), and (b) that we do not consider that an auditor who gives advice as to the form of the Company's annual returns could be said to give directions or instructions in accordance with which the directors are accustomed to act, within the meaning of Section 110.

Turning now to the sections mentioned in our instructions, but not included in the above list, an auditor could not in our view be made liable under Section 34 (5) unless he was knowingly a party to the issue of the prospectus in the circumstances described in the section. We think that an auditor would be liable under Section 44, if, and only if, he knowingly and wilfully authorised or permitted the issue of the balance-sheet without the statement required by the section. We are of opinion that an auditor would probably be regarded as an officer of the Company for the purposes of Section 60 if he were to aid or abet such a concealment or misrepresentation as is mentioned in the section. But it is extremely improbable that he would ever have occasion to do so. It is difficult to conceive a case in which an auditor could be knowingly a party to such defaults as are referred to in Sections 66, 67 and 80. Nor do we think that authorisation or permission of the omission of an entry on the register of charges within Section 88 comes within the sphere of an auditor's duties. Similarly Section 89 can hardly in ordinary circumstances affect auditors, nor is it easy to see how an auditor as such could be knowingly a party to a default in registration under Section 91. Section 129 does not require an auditor to ensure that no balance-sheet is issued without a copy of his report, but if he were knowingly a party to the issue of a copy of the balance-sheet without a copy of the report he would probably be regarded as an officer and be liable under the section. We consider that an auditor within the sphere of his duties would be an agent for the purposes of Section 137. For the reasons advanced above in reference to Section 110 we do not think that Section 144 affects an accountant or auditor who merely gives advice.

We do not consider that an auditor is an officer capable of a default for the purposes of Section 145 or Section 153 or Section 226. But we think that he would, within the sphere of his particular duties, be regarded as an officer for the purposes of Sections 271 to 277. Section 275 (5), to which our attention is particularly directed, would not include an auditor, for (as we have indicated above) an auditor does not give directions or instructions to the directors of a company. It is expressly provided that an auditor is an agent of the Company within Section 277 (6). Sections 280, 295 and 308 are concerned with ministerial acts in the management of the Company for which an auditor as such is not responsible.

With regard to the supplementary question which has been put to us, in our opinion it is the duty of an auditor to see that the balance-sheet is framed in accordance with the requirements of the Act, including the requirement that shares in and sums owing from subsidiary companies shall be shown as separate items on the assets side, and sums owing to subsidiary companies as a separate item on the liabilities side, and to call attention in their report to any failure on the part of the company to comply with these statutory requirements.

A balance-sheet so framed as to treat the assets and liabilities of subsidiaries as if they were assets and liabilities of the parent company, though useful as a supplementary document for information purposes, would not in our opinion satisfy the requirements of the Act.

## UNEMPLOYMENT INSURANCE ACT, 1929

An Act to amend the Unemployment Insurance Acts, 1920 to 1929, with respect to the amount of the contribution to be paid under those Acts out of moneys provided by Parliament.

Be it enacted by the King's most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows :—

### AMOUNT OF STATE CONTRIBUTION.

1.—As from the first day of April, nineteen hundred and twenty-nine, the contribution payable under the Unemployment Insurance Acts, 1920 to 1929, out of moneys provided by Parliament shall be at a rate equal to one-half of the aggregate amount of the contributions paid in respect of the employed person by himself and his employer or, in the case of an exempt person, paid by his employer.

### SHORT TITLE, EXTENT AND REPEAL.

2.—(1) This Act may be cited as the Unemployment Insurance Act, 1929, and shall be included among the Acts which may be cited together as the Unemployment Insurance Acts, 1920 to 1929.

(2) This Act shall not extend to Northern Ireland.

(3) In sub-section (2) of section four of the Unemployment Insurance Act, 1925, the words from "the contribution to be made" to the words "have effect accordingly and," section eight of and the Second Schedule to the Economy (Miscellaneous Provisions) Act, 1926, and paragraph (b) of sub-section (1) of section two of and the Second Schedule to the Unemployment Insurance Act, 1927, shall be repealed as from the first day of April, nineteen hundred and twenty-nine.

## Reparations.

Those who were present at the recent Incorporated Accountants' dinner to Sir Josiah Stamp will be interested in the lecture on the subject of "Reparations" which will be given at the Gresham School of Economics on Wednesday, October 16th, at 6.30 p.m. by the Principal, Mr. J. A. Berger, D.Sc., F.C.A.

Tickets can be obtained from the Parliamentary Secretary at Incorporated Accountants' Hall, or from the General Secretary of the School at 66-67, St. Paul's Churchyard, London, E.C.4.

## INCORPORATED ACCOUNTANTS' DELEGATION IN CANADA.

A Delegation of Incorporated Accountants, consisting of the President (Mr. Thomas Keens) accompanied by Mrs. Keens, J.P., Mr. Arthur Collins and Mrs. Collins, and Mr. E. Cassleton Elliott, paid a visit to Canada before proceeding to the International Congress on Accounting in New York.

Disembarking at Quebec on Friday, August 30th, they were received by Mr. Arthur La Rue, representing the Society of Chartered Accountants in Quebec, and were entertained by him to luncheon at the Garrison Club.

The party left Quebec for Montreal on Saturday, August 31st. On Sunday, September 1st, they were privately entertained by Mr. and Mrs. John Hyde. On the following Tuesday, a luncheon was given in honour of the delegation at the Mount Royal Club by the Incorporated Accountants in Montreal and the Society of Chartered Accountants in Quebec. The chair was taken by Mr. John Hyde, Fellow and Honorary Member of the Society of Incorporated Accountants and Auditors, and Chairman of the Canadian Committee. Among those present were Mr. A. F. C. Ross, the Hon. Secretary of the Society's Canadian Committee, Mr. A. A. Gowan, President of the Society of Chartered Accountants in Quebec, and a number of members of the profession in Montreal.

The toast of "The Society of Incorporated Accountants" was proposed by Mr. John Hyde, who expressed the pleasure of the Montreal members of the profession in welcoming their professional colleagues from Great Britain. Response was made by the President (Mr. Thomas Keens) and Mr. Arthur Collins, and the toast of the Chairman, Mr. John Hyde, was proposed by Mr. E. Cassleton Elliott.

A visit was paid to Ottawa, where arrangements for the entertainment of the delegation had kindly been made by Mr. W. A. Tolley, Incorporated Accountant, City Auditor of Ottawa. The party stayed at the Chateau Laurier, one of the finest hotels of the Canadian Pacific Railway Company, which overlooks the Ottawa River and the famous Houses of Parliament of Canada.

At the invitation of the Mayor of Ottawa, a private dinner was given to the delegation at the Chateau Laurier, the City being represented by Mr. C. J. Tulley and Mr. Gerald Sims, the City Controllers. The President replied to the toast of the Society, and a speech on Municipal Finance was made by Mr. Arthur Collins. The thanks of the delegation for the hospitality extended to them were expressed by Mr. Cassleton Elliott.

The concluding visit in Canada was at Toronto, where arrangements had been made by Mr. Henry Barber, J.P., Incorporated Accountant. The Delegation



tion were met on their arrival at the Royal York Hotel by Mr. Barber, Mr. Kris Mapp, Incorporated Accountant, Mr. H. E. Guilfoyle, first Vice-President of the Institute of Chartered Accountants of Ontario, and Mr. Harold A. Schlach, Secretary of the Institute.

Through the kindness of Mr. Henry Barber and Miss Barber the ladies were entertained at luncheon at the Royal Canadian Yacht Club, and the delegates were the guests of the President of the Canadian National Exhibition at luncheon.

The Delegation were also the guests of the President of the Exhibition during the afternoon and evening entertainments, which represented in a remarkable degree the development and enterprise of Canada, its social life and its recreations. The party, with Mr. H. W. Chancellor, a representative of the profession from Australia, were entertained to dinner at the Royal York Hotel by the Institute of Chartered Accountants of Ontario, when the chair was occupied by Mr. A. Percival Edwards, President of the Institute, who was supported by the first Vice-President, Mr. H. E. Guilfoyle, and the second Vice-President, Mr. F. J. Stiff.

The toast of "The Society of Incorporated Accountants" was proposed by Mr. George Edwards, father of the present President of the Institute, who had taken a prominent part in the development of the accountancy profession in the Dominion of Canada. Responses were made by the delegation, who expressed their thanks for all the arrangements made.

A day was spent at Niagara Falls, after which the party left by the night train from Niagara for New York, where they arrived on the morning of September 7th, and stayed at the Commodore Hotel, New York, in anticipation of the opening of the International Congress on Accounting on Monday, September 9th.

During the visits to Montreal, Ottawa and Toronto, the hosts kindly placed themselves at the entire disposal of the Delegation.

#### The President's Acknowledgments.

Mr. Keens, in responding at Montreal to the toast of "The Society of Incorporated Accountants and Auditors," said the representatives of the Society had been engaged, during the few days they had been in Canada, in compiling impressions. On approaching the shores of Canada, and sailing up the magnificent waterway of the St. Lawrence, the first impression was one of unbounded space and opportunity for development. The climate had shown that in September it could be extremely warm, but with this it was bracing and pleasant. The hotels were a revelation to those who saw them for the first time—their size and their magnificence filled the visitor with admiration. With regard to the City of Montreal, they had nothing but praise. The lay-out of the City was delightful; the abundance of trees made the prospect from almost any point of view most charming, and

the programme of developments now on foot to extend still further and beautify the city gave evidence of great foresight and real vision. The residential districts of the city were remarkable both for their general planning and for the style of domestic architecture which had been initiated. They seemed to have discovered new styles of domestic architecture which might very well be copied in our home towns to the great advantage of all of them.

Suitable acknowledgments were also given by the President at Ottawa and Toronto. He said they would take home with them a happy memory of the wonderful hospitality which had been extended to them in every centre by their Canadian professional brethren and their friends who had welcomed them so cordially.

With regard to the Society, a few words might be necessary as to its position and standing. It was founded nearly 50 years ago, and had a membership of approximately 5,300. There were connected with the Society many men who held a high position in professional business and public life in England, and among these he might mention that economist of world-wide repute, Sir Josiah Stamp, Sir James Martin, Sir Charles Wilson, and Sir Malcolm Ramsay.

The conditions of membership of the Society were evidence of training, and the capacity to pass extremely severe examinations. The usual course of entering was articles for a period of five years, except in the case of University graduates, where the period was shortened to three years. In addition, the Society had the power, under its bye-laws, to admit to its examinations candidates who had completed substantial periods of service in the office of a practising public accountant and had attained a sufficiently high standard of general education. Six years' service was required for the Intermediate examination, and nine years for the Final examination (subject to passing the Intermediate).

That was practically the main distinguishing feature from the Institute of Chartered Accountants, and meant that men and women of ability without means or influence could obtain the Society's degree.

There was the further difference that service in the office of City and Borough Treasurers was considered to be equivalent to service in the office of a practising accountant. This meant that the Society had been able to qualify large numbers of young men and women who were in the service of the local government authorities, not only of England and Wales, but throughout the world. In Great Britain it had led to the creation of a highly-skilled local government service, which had been of inestimable advantage to the public life of England.

Associated in this work had been the Institute of Municipal Treasurers and Accountants, with which their colleague, Mr. Arthur Collins, had been so closely identified, and in which he had played so important a part.

# International Congress on Accounting.

## REPORT OF PROCEEDINGS.

THE International Congress on Accounting opened at the Hotel Commodore, New York, on Monday September 9th, and continued throughout the week. Its purpose was "to discuss current problems and to determine how accountants may best serve the industrial, commercial, banking and investment interests of the world, as well as the Governments of nations and of lesser political sub-divisions." The Congress was sponsored by the American Institute of Accountants, the American Society of Certified Public Accountants, the National Association of Cost Accountants, the American Association of University Instructors in Accounting, and the State Societies of Certified Public Accountants in the United States. Under the Presidency of Colonel Robert H. Montgomery (New York), it represented the largest assembly of accountants ever held, there being some 1,600 delegates present. The principal accountancy organisations in the following countries were officially represented:—Austria, Czechoslovakia, Denmark, Finland, France, Germany, Great Britain, Ireland, Italy, Holland, Norway, Poland, Roumania, Russia, Spain, Sweden, Switzerland, Canada, South America, Central America, Porto Rico, Mexico, and Japan.

The delegations from Great Britain and Ireland were as follows:

*The Society of Incorporated Accountants and Auditors:* Mr. Thomas Keens (President), Mr. Arthur Collins (Member of the Council), Mr. E. Cassleton Elliott (Member of the Council), and Mr. A. A. Garrett (Secretary).

*Institute of Chartered Accountants in England and Wales:* Sir William Plender, Bart., G.B.E. (President), Sir Woodburn Kirby, Mr. William Cash, and Hon. George Colville.

*Scottish Chartered Accountants:* Mr. Wm. Greenhill (President, Society of Accountants in Edinburgh), Mr. L. B. Bell (Secretary, Society of Accountants in Edinburgh), Mr. Peter Rintoul (President, Institute of Accountants and Actuaries in Glasgow), Mr. D. Norman Sloan (Secretary, Institute of Accountants and Actuaries in Glasgow), and Mr. James Gordon (Glasgow).

*Institute of Chartered Accountants in Ireland:* Mr. A. H. Muir (Belfast), and Mr. G. Brock (Dublin).

The Incorporated Accountants' Delegation was supported by the following members of the Society, several of whom travelled a long distance in order to be present: Mr. C. S. Ashdown (New York), Mr. James Baird (Belfast), Mr. J. W. Bartrop (Detroit), Mr. C. T. Bayley (New York), Mr. E. C. Burroughs (Chicago), Mr. H. Byrne (New York), Mr. J. H. Clayton (New York), Mr. J. A. Cooke (Chicago), Mr. John A. Corben (New York), Mr. J. S. Keith

(New York), Mr. P. G. Smith (New York), Mr. E. Wilson (New York), and Mr. E. van Dien (Amsterdam).

## Address of Welcome.

An Address of Welcome was delivered by the President, Col. MONTGOMERY, who said:—The first International Congress of Accountants met at St. Louis in 1904. The second met at Amsterdam in 1926. This is the third. The underlying reasons for the first two were the same as for this, viz, the accountants' passion to analyse themselves and everybody else, and to take an inventory of what they have or think they have. This Congress is a grand, free-for-all checking-up party. We are proud only of what we accomplish when we can prove it to be good. We try to be truthful, hence we recognise our shortcomings, look them in the face, try to improve, and to refrain from repeating our errors. And so we have laboured and grown. At the first Congress there were in attendance about ninety inquiring souls. At Amsterdam there were about 375, and at this Congress we have more than 1,600. We know who are here, so that it is a very modest statement when I tell you that each succeeding Congress has brought together a greater and greater proportion of the leading accountants of the world. We are here because in accounting we can point nowhere to anything final. Progress is essential. It is not enough to say that accounting is a necessary adjunct to commerce and finance. If it were merely an adjunct, its usefulness would be limited. Results have shown that accounting is something complete in itself. It has form, substance and traditions. Its practitioners require imagination as well as experience; without vision they would be automatons; in the development of accounting there is nothing final. The place of accuracy in accounting corresponds to the same element in other sciences and in the arts. I like to think of the term "accurate" as applied to an accountant as denoting one who *thinks* accurately, and who places the balancing of figures as one of the least important of his accomplishments. Unbridled speculation in securities and unsound practices in business always result in demands upon accountants to overstate assets and profits, and to understate liabilities and losses. When others do not keep their feet upon the ground, we must do so. The public relies upon us, and has a right to rely upon us, not so much for unreasoning conservatism as for intelligent accuracy. The average investor or stockbroker cannot be expected to be, and is not, astute enough to discover the evasions or omissions in skillfully drawn financial statements which conceal facts. Considering the vast number of financial statements which are being issued daily, the proportion of untrustworthy statements is notably small. Nevertheless, we are expected to refuse to identify ourselves in any way as associates or originators with statements which do not disclose all essential data, and we must be able to unearth errors or omissions in statements submitted to us for inspection and review. The information which is not fully disclosed in financial reports may be favourable or unfavourable. In either case, the obligation of



disclosure is substantially the same. This obligation rests upon the private as well as upon the professional accountant. There are differences in the obligation, such as the degree of legal responsibility which may be involved, but the moral responsibility for accurate accounts cannot be evaded by any of us. A passion for accuracy does not hinder the development of other qualities. Without vision there would have been little progress in constructive accounting; with vision accountants have painted the past in vivid characters, the impressions of which affect and largely control the future of our commerce and finance. And yet withal, we are students, and the more we learn the more we study. We recognise the necessity for research into all the ramifications of business. We are never content with what we have discovered, because we know that there is much more to be learned. It is not intended that there would be presented at this Congress the last word on any subject. We may point with pride to the 65 papers prepared for the forthcoming sessions. The papers have been written by men who know much about their subjects, and the reason that they know much is that they have studied much and yet continue to retain their status as students. The papers will be presented to you day by day with the earnest hope that the great part which accounting is now playing in the affairs of the world will be strengthened and accelerated by discussions and comments, as well as by the content of the papers. The discussions must be critical, pertinent, and constructive, or we will be bored. We ask to be entertained or instructed. A word to the wise is sufficient! I greet you all in the name of the Accountants of the United States. We salute you as brother practitioners in a great profession.

Addresses of welcome were also delivered by the Hon. Herbert H. Lehman, Lieut.-Governor of the State of New York, and the Hon. James J. Walker, Mayor of the City of New York.

Sir William Plender (President of the Institute of Chartered Accountants in England and Wales), Mr. W. Greenhill (President of the Edinburgh Society of Accountants), and Mr. E. van Dien, Hon. Incorporated Accountant (Amsterdam), made suitable acknowledgment.

### The Papers Contributed.

In all over fifty papers were contributed by accountants of many nationalities. The papers were printed in English, French and German, and circulated to the delegates in advance. As would be expected from such a diverse gathering, the subjects to be discussed were very varied, ranging from technical matters such as Legislation and Education, the Certification of Balance Sheets, Costing and Governmental Accounting, to matters of wider interest such as International Arbitration, the Natural Business Year and Calendar Reform.

Space does not permit of the whole of the papers being noticed even briefly, but the following are some of those which will be of most interest to our readers:

### Development of Professional Accounting in Continental Europe.

Mr. E. VAN DIEN, Honorary Incorporated Accountant (one of the Honorary Presidents of the Congress, and President of the International Accountants' Conference at Amsterdam in 1926), contributed the first paper, his subject being "The Development of Professional Accounting in Continental Europe." As we hope to publish this paper in a future issue we refrain from summarising it here.

### Legislation and Education for the Accountancy Profession.

There were a number of papers on this subject.

Mr. THOMAS KEENS, President of the Society of Incorporated Accountants and Auditors, contributed a paper in which he outlined the scope of the legislative and educational work now being carried on by Chartered and Incorporated Accountants in this country and indicated the probable course of future development. The full text of the paper and the discussion thereon will be found in another part of this issue.

### Depreciation and Obsolescence.

There were several papers on this subject.

Mr. J. R. WILDMAN (New York) said the problem of obsolescence arose when the property in which the capital was invested had a possibility of becoming unsuited to its use some time prior to the expiration of its estimated life. It must then be determined whether in order to keep the capital intact it was to be included in cost on the basis of a shorter life of the property. In a well managed enterprise the loss in value of the property passed into the cost was recovered from buyers as part of the price of the goods and returned to the enterprise in cash within the period of its life. But the purchasing power of the dollar might have declined when the property needed replacing. It might seem reasonable to allow for depreciation at a higher rate to provide for such a contingency, but this would result in higher prices being charged for the finished product, with a consequent disadvantage to the firm in competition with its rivals. The practice was therefore seldom resorted to except in extreme cases.

Dr. W. J. POLAK (Holland) contributed an extremely scientific account of the theories underlying provision for depreciation, which, he said, partly counterbalanced the shocks of market fluctuations and rendered stabler the existence of the enterprise. He pointed out that obsolescence was often a more important cause of diminishing value than depreciation. A new invention often destroyed the vitality of an asset before it had suffered appreciably from wear and tear. Passenger ships, hotels, cinematographs and other fixed assets rendering luxury services often owed a large proportion of their initial value to novelty and depreciated very rapidly as soon as this had worn off.

Mr. A. B. CRUNDEN and Mr. D. R. BELCHER, of New York, in a joint paper dealt with "The straight line method" (i.e. the writing off of an equal amount every year during the estimated life of the asset) with a

preliminary sketch of the early history of telephone organisations and the difficulties under which they laboured when all their plants were in the open and exposed to almost complete destruction by sleet storms or other casualties. How necessary was the introduction of underground cables and conduits was shown by a picture of New York in 1890 when the houses could hardly be seen behind the telephone wires. The telephone was something so entirely new that the whole science of its working was still to be created when the instruments were placed on the market. An interesting analogy was drawn between telephone plant depreciation and life assurance, the rates for various classes of property being calculated on actuarial tables according to their estimated "age at retirement."

Mr. D. HIMMELBLAU (Chicago) defended the annuity method, under which the net cost of a fixed asset (original cost less salvage value) plus interest on the undepreciated cost is spread *pro rata* over the service life (in years) to determine the amount of depreciation and interest attributable to a given year, because, he said, "it is not as worthless as a casual reading of the literature on depreciation would lead one to believe," but he concluded that it was only suitable to long-lived assets such as leases and buildings.

Mr. J. J. KLEIN (New York) discussed the allowance for depreciation and obsolescence under Federal Income Tax Laws, which is defined by statute as "a reasonable allowance for the exhaustion, wear and tear of property used in the trade or business, including a reasonable allowance for obsolescence." Intangible assets (*e.g.*, copyrights and leases), as well as tangible, might be covered by the depreciation allowance if they had a definitely limited period of usefulness. The taxpayer must foresee the date when obsolescence would be complete, but the rate allowed might be re-adjusted if it became apparent that the original estimate was faulty. The most usual method of calculating depreciation for income tax purposes was the "straight line" method, but any recognised practice might be followed. The Bureau of Internal Revenue was investigating the possibility of standard rates applicable to many types of assets.

Mr. C. G. JENSEN (Pittsburg) dealt with depreciation and obsolescence as related to cost of production; and

Mr. L. R. NASH (Boston) read a paper on the methods used by public utilities.

Sir WILLIAM PLENDER, President of the Institute of Chartered Accountants in England and Wales, dwelt on the dangers of neglecting to make provision for depreciation through short-sightedness—a characteristic of most shareholders in public companies who tended to think more of the actual rate of dividend received by them than of the security for its continuance. The careful investor must consider the profits earned and appropriated to reserves no less than those distributed in dividends. Provision for depreciation and obsolescence of fixed assets was therefore essential, but in practice it was often exceed-

ingly difficult to determine the amount to be charged in a particular year. This often depended partly on technical considerations outside the immediate sphere of accountancy, and while the accountant should not trespass on the territory of other occupations, he often found a general knowledge of such questions very valuable. During recent years there had been a growing tendency to consult the accountant on matters formerly regarded as outside his sphere of duties, owing no doubt to the fact that an accountant in his daily practice came into closer contact with engineers, valuers, bankers, lawyers and actuaries, and assimilated, to a serviceable extent, the results of their knowledge and experience.

#### Balance Sheets, the Press and the Public.

Mr. C. HEWETSON NELSON, a Past President of the Society of Incorporated Accountants and Auditors, dealt with "The Accountant's Duties to the Press and the Public in relation to the Certification of Balance Sheets." His paper will be found in full in another part of this issue.

#### Principles of Valuation.

Mr. M. E. PELOUBET (New York), in his Paper on "The Valuation of Current Assets," found an analogy between the valuer and a certain sage who sat on the bank of a river waiting for it to flow by, so that he might walk across dry-shod. The sage reasoned, "the river is water," and neglected such factors as the river bed, formation of its basin, and climatic conditions. The valuer was liable to reason that "the inventory is saleable goods or material," and to neglect the current stock which must be maintained in order to carry on the business. Assets, he said, must be valued on the basis of their value to the concern; profits must be earned on the actual equipment, and changes in replacement value should be ignored. Mr. Peloubet strongly opposed the established practice of valuing inventories at current cost or at cost on market, whichever is lower, on the ground that this would involve showing a profit or loss which could not be realised without liquidating the business.

Sir WOODBURN KIRBY, F.C.A. (London), dealt with "The Valuation of Capital Assets." He said the present-day practice in England was to value capital assets on the basis of reproduction cost. In the years following the war insurances had to be increased by 50 per cent. to 150 per cent., but fixed assets remained in the books at their original figure, less depreciation, until they were actually replaced at higher costs. Capital was regarded as sacred and it was even necessary to obtain the sanction of the Court when a writing down of capital was necessary. The investing public would be utterly confused by an attempt to adjust values to price levels; the present system gave the investor clear and definite information and confidence had been gained by consistent adherence to recognised principles. He urged accountants throughout the world to get into closer touch as a profession. He suggested a permanent International Council which should standardise practice and bring pressure to bear on Governments



to enforce the best practice by law, and so bring about a complete merging of national in international trade interests as a safeguard against the possibility of war.

Dr. F. SCHMIDT (Frankfort-on-Main) took a different view as to the correct basis of the valuation of assets, and in a carefully reasoned paper maintained that every valuation in a going concern should be based on the current cost of replacement. He based his arguments on the changes in purchasing power of money, especially during and after the Great War, which, as he pointed out, were not confined to countries where inflation took place as the result of uncovered note-issues. Even in the United States the general price level increased from approximately 100 per cent. to 300 per cent. and subsequently declined to approximately 150 per cent., so that the cost price of an asset bought at one period would be far from representing the true value at another.

Professor PIETRO BOTTINI (Milan) supported the basis of "cost or market price, whichever is lower," and emphasised the necessity of allowing for depreciation and obsolescence. But he advocated re-valuation to meet the special difficulties created by the World War and consequent variations in currency. Current assets should be treated on the same principles as fixed assets. Securities should be valued at the market price on the date of the balance-sheet, but exceptional fluctuations should be provided for in a special account.

Mr. F. H. HURDMAN (New York) contributed a paper on "Earned Surplus in the cases of No Par Value Stock and the availability of that surplus for Dividends." He pointed out that the accumulation of earnings classified as surplus was really capital, though it was normal to distinguish such from the original capital. The payment of dividends from this source was therefore incorrect, but the loose phrasing of the laws in some American States made it legally possible. Neither should dividends be paid from a surplus created by writing up the value of assets. This should figure as a separate item in the balance-sheet in the case of real estate, buildings and equipment which were not regularly revalued, while the practice of valuation at "cost or market price, whichever the lower" should be applied to all other classes.

#### Cost Accounting.

Mr. C. R. STEVENSON (New York City) traced the origin of cost accounting from the earliest times when the growth in size of businesses first occasioned difficulty in determining selling prices for products manufactured. The records compiled with this object were originally closely guarded office secrets, but in course of time the manufacturing department began to feel the need of analysing the time spent by workers on each process of manufacture in order to effect economies. Thus in the second stage a careful study was made of direct labour operations which were easily measurable. Subsequent development brought about the inclusion of overhead costs as well and their systematic apportionment on a percentage basis according to the time spent or machines used on the work. The next step was the introduction of

standard costs, which represent the costs of product under normal operating conditions and on the basis of what goods should cost at average rates of wages and at standard values of material together with the same old standard rate of burden applied to the cost either on an hourly rate basis or a percentage of the direct labour cost. The comparison of actual with standard costs provided a test of the efficiency of the management, and with such records compiled on a departmental basis any profit or loss was traced to those responsible for it. Such figures provided the basis for payment of employees under a "savings sharing" plan and the psychological result of such a scheme was beyond imagination. The accountant was no longer a mere historian; he had to review the business as a whole and see that the accounting system was thoroughly up to date.

Mr. W. ANNAN, C.A. (Edinburgh), pointed out that cost accounts were not a product of the Great War, but must have been used in some crude form ever since mankind commenced to trade and use money, but he quoted Lord Weir's remark that "until comparatively recently intelligent costing on both sides of the Atlantic was conspicuous by its absence." English enterprises had once been described as "with tradition-rotten methods and insufficient costing system, each jealously guarding as knowledge beyond price the details of its inadequate operations." But the necessity for a proper system of costing was now recognised and accountants ought not to hesitate to suggest its introduction, or improvements in an existing scheme any more than the physician, on observing symptoms of illness other than those he had been called in to treat, would hesitate to point out the trouble and prescribe for it. Changes in conditions must be given effect to at once. "There must be no slow-motion pictures in the costing department." Difficulties arising from the burden of excessive costs had been met by "standard costs" or "budgeting," the standard being worked out from a forecast of probable output based on past years' records. Progress should be checked at least once a month to guard against shortage of output. Not long ago auditors were looked on by business men as a necessary evil, but they were now recognised as at least of some help.

Rag. AMILCARE ZANOTTI and Rag. EMILIO COLONBO (Milan) held that manufacturers who refused to study costs should be deprived of the right to carry on any industry. Costs should be worked out to the fullest detail and wages should be fixed on a piece-work basis wherever possible.

#### Standard Costing.

Mr. G. C. HARRISON (Chicago) dealt more fully with Standard Costs. Standard costing, he said, was one of the only two basic improvements in accounting methods since the Babylonian records on slabs of clay of B.C. 2600. Just as double-entry book-keeping superseded single entry, standard costs superseded the earlier costing systems because they showed both sides of the account—not only what the costs were, but also what they should have been. Standard costing involved infinitely less labour than

the old retrospective system, and as factories became more efficient less cost accounting was required. The accountant's attention had then to be diverted to the selling organisation, to decide the exact extent of output and level of prices which would yield the maximum economy of production and the widest margin of profit.

Mr. E. A. CAMMAN (New York) discussed problems of installation and procedure of standard costs. The first step was to decide on the standard, which was sometimes based on the maximum possible output and sometimes on the output normally expected. The standards must be modified to meet any changes in conditions such as the use of a different kind of material. Standard cost procedure entailed no more work than the less useful job cost method, and was really simple to grasp once the theory was mastered.

Mr. H. G. CROCKETT (New York) considered that the essential was the setting of standards for material, labour and "burden" (or overhead costs) and the lucid presentation of these standards, and the variances between actual and standard costs in each case. The amount of detail required would depend on the nature of the business and the variety of its product, but the management must always have sufficient information to fix the responsibility for every variance from the standard.

#### **Selling Costs.**

Mr. H. C. GREEN (Chicago) and Mr. F. L. SWEETSER (New York City) read papers on distribution and selling costs. Mr. Green pointed out the advantages of classifying sales, which might be done by geographical divisions, types of customers served, selling methods or agencies or by products sold—all common causes of variations in selling costs and consequently in profits. An increase of 30 per cent. in the volume of business might involve no extra cost if it took the form of larger orders to present customers, but it was achieved by securing new customers in fresh areas, the cost would be increased proportionately. Both speakers dwelt on the need for a close analysis of expenses and their systematic allocation to distribution units. Mr. Sweetser considered that a great deal of sales effort in America was creating an unwarranted expense, because business secured for one industry was merely shifted from another industry, "possibly not always to the good of all concerned." This difficulty was probably non-existent, or at least existed in smaller proportions, in other countries.

#### **Local Government Accounting.**

Mr. ARTHUR COLLINS, F.S.A.A., a Member of the Council of the Society of Incorporated Accountants and Auditors, contributed a paper on "Municipal and Local Government Accounting," the full text of which we hope to publish in a future issue.

#### **Commercial Budgets.**

Mr. C. A. HEISS (New York) explained the need for budgets as a means of co-ordinating the various departments of a complex modern enterprise and ensuring a well-balanced development. The Bell

Telephone group of companies had been working on a budget plan for twenty years, and its budgets now included estimates of station movement, plant growth, earnings and expenses for each of the next five years as compared with the actual performance of the past five years, the amount of new capital needed and quantities of various types of material and equipment likely to be required. An index of past and current business activity in the country as a whole was prepared and found very helpful. Departmental budgets were co-ordinated by the executive of each company and sent to the parent company, which then compiled a consolidated budget for the whole system. This was found to have a very satisfactory degree of accuracy, for the following year at least, but the details were constantly being revised and the budget must not be adhered to slavishly.

Rag. Cav. CARLO FORZANI (Milan) attributed the lack of literature on commercial budgets to the fact that the operations of mercantile concerns were so essentially changeable and contingent, and so exceedingly numerous, that it seemed futile to attempt to anticipate even approximately the results to be attained during a definite period. Therefore, while estimates and partial budgets were widely used, few budgets were compiled covering the operations of a business in their entirety.

#### **Government and Municipal Budgets.**

Mr. O. F. GODDARD (Hawaii) considered that no phase of accounting had been so neglected as Governmental accounting. This he attributed to the lack of competition and to the failure to make the public service attractive to high-class accountants. But recent years had seen a transformation. Public sentiment demanded more efficiency and Universities were providing courses of study for present and prospective Governmental executives, thus gradually introducing a higher standard. Governmental finances were complicated by the existence of a number of funds, or classes of revenue set apart for a specific purpose, such as taxes levied on motorists and applied to road purposes only. In making the budget it was necessary temporarily to disregard distinctions between funds within a single classification, so that a proper balance might be maintained between the different classes. Afterwards each fund could be considered separately and estimates prepared of revenue and expenditure to determine whether fresh taxes were necessary. It was the duty of the accounting executive to furnish the information necessary for drawing up the budget and afterwards to keep the accounts on the basis of budget estimates, thus producing a barometer by which the ultimate effects of the financial operations of the funds might be definitely forecast and necessary changes of programme effected. Reports should always be made as simple as possible. Mr. Goddard urged that the accounts of the Government should be regularly audited by qualified public accountants.

Mr. H. S. HAWTHORNE (Montreal) dealt with "The Financial Budget of the Government of the Dominion of Canada" and included an outline of the Canadian



Constitution and of the provisions made for the regulation and control of its finances by the different bodies appointed for that purpose.

Mr. A. C. McMILLAN (Glasgow), dealing with "Municipal Budgets in Scotland," surveyed all the manifold activities of a Scottish county parish or burgh authority, and claimed that accuracy of detail was a feature of all their estimates. "On this side," he said, "we understand that 'guess and calculate' is an American colloquialism. Municipal budgeting in Scotland comprises much more calculation than guessing."

Mr. C. E. RIGHTOR (Michigan) approached the same subject from the American standpoint. American budgetary procedure originated in the Department of Health in New York City in 1906 and spread thence to other departments, then to other cities and States, and ultimately to the Federal Government in 1921. Improvements were still being made from year to year but the ideal was not yet attained. As a document of figures and finances the budget was now almost a finished product—so replete with figures as to be unintelligible to the average citizen who consequently manifested little interest in it. The executive should issue an interpretation of the published text. Other developments might include the setting up of unit costs for each service uniform, classification of accounts and preparation of a long-term financial programme. It was for accountants to continue the progress which they had begun in a document which, it had been said, "might be made the most potent instrument of democracy."

#### Calendar Reform.

Professor IRVING FISHER, of Yale University, contributed a paper on Calendar Reform and in doing so envisaged an entirely new calendar commencing in 1933. He pointed out that the calendar had remained virtually unchanged for two thousand years. The League of Nations Committee, after three years' study of its defects, had now reduced nearly two hundred suggestions to two which they had declared to be practical. Of the two plans approved by the League, one would merely equalise the quarters by restoring the original calendar of Julius Caesar with its alternating sequence of thirty-day and thirty-one-day months. This had been disturbed by the vanity of Augustus, who had robbed February in order to make his special month of August a month of thirty-one days instead of thirty days. But the restoration of the Julian Calendar would not remedy the fundamental defect that the months were not exact multiples of the weeks. American opinion was strongly in favour of the second suggestion for simplification, known as the Cotsworth Plan, which divided the year into thirteen equal months of twenty-eight days each. "Its advantages," he said, "are that it equalises the months, making them exactly comparable for purposes of business, government and scientific statistics. It does away with the nuisance of split weeks which occur in every month and the constant shifting from year to year of the days of the week to different dates. The variation of the number

of work and production days of the different months, which likewise changes every year, is avoided, and the calendar as a whole is reconstructed on a scientific basis. It would be fixed and uniform." The British railways, as well as many important American manufacturing concerns and merchandising concerns, had already organised their accounting systems on this basis, and the American Government had proposed an International Conference this year for calendar simplification. Preparations would be made for putting the new calendar into effect in 1933, which would be the most convenient date because January 1st in that year fell on a Sunday, the first day of the week being also the first day of the month and of the year.

#### The Natural Business Year.

Mr. P. W. PINKERTON (Chicago) made a strong plea for the universal adoption of the "Natural Business Year." He urged the many disadvantages arising from the present system, whereby every commercial enterprise conducted its stocktaking and closed its books of account as a matter of course on December 31st every year. In the cement industry and a few others, December 31st was the natural end of the cycle of operations for each season, but in the majority of cases the seasonal activity was then at its height, the whole staff was working under pressure to cope with the normal flow of business and the difficulties of stocktaking were intensified by the large quantities on hand. Records compiled in such circumstances were less likely to be accurate than if a slack period had been chosen; the management had no time to make a proper review of the situation disclosed and formulate plans for the future; and bankers and accountants called on to deal with the affairs of all their clients simultaneously could not attend to any of them as thoroughly as if the work were spread evenly through the year. The beginning of the season was the usual time for making contracts and effecting changes in policy. Reports on progress covering the calendar year applied partly to one season and partly to another, so that the results of such changes were not clearly shown. It was said by the upholders of the calendar year system that it was convenient for all reports and accounts of commercial and industrial enterprises to be issued at the same date, so that comparisons could be made of the conditions in different industries and conclusions formed regarding the state of trade in the country as a whole. But it would be much more convenient for such reports to be issued at the same period of the season in each industry rather than at the same moment of time. The movement for the adoption of the natural business year had begun with accountants, who found themselves overwhelmed with work from January to March and unable to conclude so many audits as promptly as their clients expected. They had been afraid to urge it too strongly at first lest they should be accused of selfish motives, but the advantages that would accrue to all concerned were now so obvious that it had become a duty to use all their influence to convince their clients of its universal advantages.

## Legislation and Education for the Accounting Profession in England.

A PAPER contributed at the International Congress of Accountants, New York, by

MR. THOMAS KEENS, F.S.A.A.,

*President of the Society of Incorporated Accountants and Auditors.*

### 1. SCOPE OF THE DISCUSSION.

Education and legislation are two fundamental considerations in the constitution of accountancy as a profession. I shall give them a wide interpretation and deal with principles and policy. They have a definite inter-relation—the one deals with the method of qualification and the other with the conditions under which those who have qualified can practice.

The principles involved are of general, even of international importance, but their application must necessarily vary from country to country. We must consider the genius of the particular nation, the system of education, the spirit of the laws, the requirements of commercial legislation and practice and even the accidents of history. There may be substantial differences of opinion as to policy on education and legislation for the accountancy profession, and, therefore, I welcome these International Conferences as an opportunity of exchanging views.

The first part of my paper deals with Education, the second with Legislation, and, finally, I will make a brief review of the whole circumstances.

Although by the title my subject is limited to England, my remarks on education are largely based upon the experience of the Society of Incorporated Accountants and Auditors, whose organisation covers England and Wales, Scotland and Ireland, and the British Commonwealth of Nations.

Within the space available, it is not possible for me to deal in detail with the valuable educational work of the Institute of Chartered Accountants in England and Wales and the Chartered Accountants of Scotland and the Chartered Accountants of Ireland. Speaking generally, however, their activities and organisation are on similar lines, though differing in detail.

### 2. EDUCATION AND TRAINING.

#### (a) *The Type of Professional Accountant.*

My first consideration is the normal type of professional accountant—his personal qualities and his professional capacity. Dealing with his personal qualities, the typical professional accountant must have developed a high degree of intelligence, and must be possessed of intellectual powers. Apart from his technical knowledge, he must be generally well informed; at the same time he must be practical and not academic, because his work deals with practical and business affairs. He must be capable of concentration and of discerning the main as distinct from the subsidiary factors in any problem.

He must cultivate an easy manner and be possessed of marked personality and high character. In all things he must put professional ideals in the first place, irrespective of personal interest. The student must acquire a thorough grasp of the principles and practice in the various departments of professional work; this demands considerable reading and practical experience combined. A wide knowledge of financial and commercial affairs and of the law relating to the different categories of professional practice is essential. A general acquaintance with the machinery of the State and Local Government has become desirable and a knowledge of foreign languages is increasingly valuable. Particular attention must be paid to capacity for expression in writing and speech.

#### (b) *Preliminary Education.*

Much attention has been given to general education prior to professional training. This is purely cultural; vocational subjects are excluded, although there may be a slight bias towards mathematics. Many candidates are able to present in lieu of a Preliminary examination what is termed a "School" or "Matriculation Certificate," representing the standard required for admission to a University. An increasing number of University graduates are admitted to the profession, and in these cases the period of practical training is reduced to three years. This concession is based upon the assumption of a developed intellect and a degree of *savoir faire*, but not upon professional studies. The bodies of accountants also conduct their own Preliminary examination for those candidates who do not hold the necessary qualification for exemption. Experience has shown that the system tends to attract the right type of candidate and in any case it excludes those who are definitely not qualified to enter the profession.

#### (c) *Practical Training in the Profession.*

The outstanding feature of the British system of education for the profession is the essential course of practical training. Articles of clerkship or apprenticeship are served with a Chartered or Incorporated Accountant in public practice. These articles are a definite contract between the principal and the clerk; the clerk binds himself to serve his principal for a period of five years (or three for University graduates) and the principal undertakes to provide facilities for the clerk to learn the practice of the profession. A responsibility rests upon the principal to see that the clerk is given a proper range of experience, progressively responsible in character, and to supervise the general course of his work and studies, but the clerk is in the office to develop his own initiative and capacity.

A considerable number of men and women other than article clerks are employed by Chartered and Incorporated Accountants for general professional duties. Sometimes, as a recognition of good service and ability, these clerks are given their articles without any premium. They can also qualify as Incorporated Accountants under special bye-laws without being article clerks. These candidates must



pass the same examinations as articled clerks, but six years accountancy service is required before admission to the Intermediate examination and nine years prior to the Final examination, the minimum age of qualifying being 25. The Society of Incorporated Accountants trains a large number of candidates by the normal method of service under articles, but these facilities to non-articled clerks are a valuable feature of its organisation. It has been found that those presenting themselves under the special bye-laws are of as high a type of examinees as other candidates. Articled clerks sit for the Intermediate examination during the course of their articles and for the Final near or after the conclusion of the last year of service.

#### (d) Examinations.

The Intermediate and Final examinations are in professional subjects, namely :—

Advanced accounting (including the accounts of partners and executors, accounts of companies).

Auditing.

Income Tax.

Cost Accounts.

General Commercial Knowledge and Finance.

Mercantile Law.

Arbitration and Awards.

The Law relating to :

Joint Stock Companies.

Bankruptcy.

Liquidation.

Receivers.

Trustees and Executors.

In the Final examination, there are also papers in Economics, Statistics and Banking and Currency.

The examination subjects of the Bodies of Chartered and Incorporated Accountants in Great Britain and Ireland vary in detail and form, but the foregoing is a general description.

No official provision is made for coaching for the examinations : candidates are at liberty to prepare themselves in whatever way they choose—usually through private coaches, or at certain educational institutions. (This is not strictly the case with the Chartered Accountants of Scotland, whose apprentices are obliged to attend University classes.)

#### (e) Professional Education.

Professional education, however, is organised officially on other lines. Both the Chartered and Incorporated Accountants have throughout the country Branches, District and Students' Societies, whose activities include lectures, papers and discussions. Visits are paid to those district organisations by the President and Members of the Council, and in this way a vigorous professional life is maintained throughout the whole organisation. These Societies also provide a useful field of work for those who have the capacity and ambition to become the administrators of the profession.

My own Council, in co-operation with representative members, is organising our Branches and District Societies in a more intensive manner. The whole country will be divided into areas, each within the sphere of a Branch or District Society, to which all members in that area will automatically belong. Further, all examination candidates will be required to belong to the Students' Sections of Branches and District Societies.

Considerable local autonomy is permitted. At the same time these Branches and District Societies are in close touch with the Council of the Society.

#### (f) Review of Present System.

Reviewing the system of training and education as a whole, the main features are :—

- (1) As a preliminary, a good standard of cultural education.
- (2) A definite period of training in the practice of the profession.
- (3) Study and coaching for the examinations.
- (4) Membership of a Students' Society.
- (5) Passing the Intermediate and Final examinations in professional subjects, during and after practical training.

The scheme of education has been developed as much by evolution as by design. It is a survival of the old apprenticeship system, adjusted to modern requirements.

This course entitles candidates, having proper credentials, to their certificates as Chartered Accountants or Incorporated Accountants. But this is the minimum course of study required. During the whole of a man's professional career he must keep his knowledge up to date in relation to his experience, especially if he specialises in any particular branches of work.

Accountancy is a dynamic profession and its service must increase in comprehensiveness with economic developments.

#### (g) Possibilities of the Future.

As regards the future, I consider the system of education for the profession may develop in one or all of the following lines :—

- (1) An intensification of the work of the Branches, District and Students' Societies, for which the framework is practically complete.
- (2) A course of study prior to articles, followed by an examination in some of the professional subjects.
- (3) A more definite scheme for preparing candidates for the examinations on the theoretical side, either by arrangement with the Universities or by the constitution of a school of accountancy by the profession. In either case there must be a large measure of professional control or advice.
- (4) Facilities for specialised study and experience after candidates have qualified.

I can speak of the first with some degree of certainty, but the others are of a more speculative character. The principal difficulty is to get a more extended programme carried out by candidates in the time available. I am convinced that such a programme ought not to be at the expense of the time spent in practical work. On the other hand, the extension of the normal period of five years' training would mean a considerable addition to the cost and to the time spent—a somewhat serious factor to students who have to think of earning a livelihood.

My friend, Mr. Ernest Evan Spicer, addressed the last International Congress on the subject of Education for the Profession, and has made a number of valuable suggestions in recent years. While I can hardly go as far as he does in some directions, I express my acknowledgments to him for a number of ideas and useful lines of thought.

Education for the accountancy profession is not merely a question of organisation and control by the governing bodies; it is also the individual concern of every member of the profession. The system is not solely designed to teach and to train; its purpose is also to give an outlook, a high sense of professional ethics and conduct, to cultivate a professional spirit, to maintain an honoured tradition and to enlarge the sense of duty in relation to our clients and the public.

### 3. LEGISLATION FOR THE PROFESSION.

#### (a) *Constitution of the Profession and Protection of Designations.*

There is an entire absence of any specific legislation for the governance of the accountancy profession in England or for the registration of those who practise.

The first body of Scottish Chartered Accountants received a Royal Charter in 1854. The Institute of Chartered Accountants in England and Wales was incorporated by Royal Charter in the year 1880, and the Society of Incorporated Accountants and Auditors was founded in 1885. The Institute of Chartered Accountants in Ireland dates from 1888. For its establishment the profession in Great Britain and Ireland has relied solely upon constitutional practice relating to charters and upon special facilities granted by law.

The terms "Chartered Accountant" or "Incorporated Accountant" have been used by the members of the respective bodies since their foundation. By decisions of the High Court, the exclusive use of these designations has been confirmed to the members. In the year 1907 the following decision was given in the High Court of Justice, Chancery Division, England, when an injunction was granted to the Society of Incorporated Accountants restraining persons not members of the Society from using such designation. The learned Judge said: "The designation 'Incorporated Accountant' did mean a member of the Society and did confer on the members the privilege—which one cannot help regarding as a valuable one—of being looked on, by persons who

had dealings with accountants, as holding a certain definite status indicating reliability and integrity."

There is, therefore, protection of titles in England, but not protection of practice. This leaves a loophole in our professional structure, and, in my view, a serious one. At the same time, it is satisfactory that the wide public recognition granted to Chartered Accountants and Incorporated Accountants is due to their own efforts, and to the high standards of qualification and conduct which their membership implies.

#### (b) *Effect of Economic and Historic Facts.*

Economic forces and historical facts have had an almost incalculable effect upon the position of the profession. I will mention a few—the evolution of the large public company, the increase in the number of private companies (called, I believe, in the United States "Domestic Corporations"), the merger, rationalisation, the extension of public utilities, the important relation of costs to selling prices, co-operative societies for production and distribution, friendly societies, building societies, and in spite of these movements, the persistent survival and prosperity of the small trader and manufacturer. Further, these varied forms of organisation have all been affected by direct taxation. This has demanded the service of our profession to adjust the claims upon the taxpayer and his liability to the State. It should be stated that during the war the accountancy profession was officially recognised by the Government as being of national importance.

Most of these movements and organisations have been expressed in some form of legislation which called for an accountancy service. Hence commercial legislation is the child and the accountancy profession the grandchild of economic evolution.

#### (c) *Legislation and the Work of the Professional Accountant.*

In much legislation the work of the accountant or auditor is expressed or implied, but with one important exception, and some lesser ones, the qualifications of the accountant or auditor have been left undefined or defined in such general terms as to have limited significance, e.g., the Companies Acts merely refer to "the auditor."

The important exception is in the audit of the accounts of municipal corporations. From the year 1890 to the present day the principal municipal corporations in England and Wales have severally obtained Acts of Parliament providing *inter alia* for the appointment of professional auditors of the accounts of the corporation who, it is specified, shall be members of the Institute of Chartered Accountants in England and Wales or of the Society of Incorporated Accountants and Auditors. No less than 72 Acts have been passed containing this section. The last Act was in 1929. Thus a highly important precedent has been set up and maintained without variation for nearly 40 years. Time and again Petitions have been presented to Parliament for the removal of the limitations of this clause, but



Parliament has declined to make any alterations. In the year 1914, the Chairman of the Local Legislation Committee of the House of Commons, by whom such petitions are heard, said :—

We all know the standing of the Institute of Chartered Accountants and the Society of Incorporated Accountants, and that those two Societies are suitable Societies to whom we can give the corporation power to entrust their audit. Knowing that, we have no evidence or suggestion of any other body or persons to whom such powers might be given.

My conclusion is that the accountancy profession in England has relied upon its own standards, its own work, its own designations, supplemented and supported by incidental rather than direct legislation.

(d) *Registration for the Profession.*

Registration means that by Statute there will be set up a register which shall contain the names of all persons entitled to carry on public practice as accountants. A person not on the register will not be entitled to practise, and if he attempts to do so he will be subject to penalties. Registration has not been accomplished in Great Britain.

I should make it clear that upon this question I am speaking entirely on behalf of my own Society, which from the early nineties has consistently advocated registration. In 1911 a Bill was introduced into Parliament on behalf of the Institute of Chartered Accountants and the Society of Incorporated Accountants. It was influentially supported—among others by the then Lord Chief Justice of England—and was favourably regarded by the Board of Trade. Unfortunately, through an accident of procedure in the House of Commons, the Bill was not sent to Committee and was dropped. No attempt has been made since then, though the question has been much discussed.

The problem is this: New bodies are constantly being formed; their membership is frankly recruited by advertising and circularising. There is the ever-present temptation to all and sundry to commence practice, often using flagrantly unprofessional methods. The evidence before me shows that a definite public interest, as distinct from merely professional interests, is involved. My Council this year, having fully reviewed the situation, authorised the following statement :—

The Council unanimously re-affirmed their belief that the registration of the profession of accountancy was desirable in the interests of the public and the profession, and considered that a Registration Bill should be promoted in Parliament.

In giving this decision in regard to the audit clause in a Municipal Corporation Bill in 1929, the Chairman of the Local Legislation Committee of the House of Commons said :—

The decision of the Committee is that Clause 300 stand part of the Bill.\* I am desired to

say that in the opinion of the Committee sound and reliable accounting is of paramount importance to industry, commerce and the investing public, and with a view to establishing an efficient accounting public service, we consider the time is opportune—in fact we think it has arrived—for establishing a register of properly qualified persons on the lines of the Law and the Medical service. . . .

The constitution of the first register of practising accountants would necessarily involve a considerable sacrifice on the part of Chartered and Incorporated Accountants in regard to their conception of the proper standard of qualification. But once a register has been set up all persons registered will be subject to discipline and no new bodies will be formed. I do not under-estimate the difficulties, which are many, but, if a Bill became law, it is my conviction that in the course of years, substantial benefit would accrue to the public and profession alike.

4. CONCLUSION.

Reviewing the main theme of my paper, I submit that the bodies of Chartered Accountants in England and Wales, Scotland and Ireland, and the Society of Incorporated Accountants and Auditors inaugurate a system of training and education for the accountancy profession, which time has amply justified: the system has been progressive and they have maintained an increasingly high standard of qualification. By this means, without specific legislative protection, their members have provided a reliable and comprehensive accountancy service. Their educational work will continue and expand, and it remains to obtain legislation to protect the public in the enjoyment of that proper professional service, which the public have a right to expect.

In concluding, I would pay a tribute to our professional colleagues who have guided the policy of the bodies of Chartered Accountants, and to my predecessors on the Council of the Society, by whose devoted labours and ability for nearly half a century the present organisation and policy of the profession have been established on a sure foundation.

Discussion

Sir WILLIAM PLENDER, Bt., G.B.E., said that the section of Mr. Keens' address on Education and Training as now followed in England was, in its broad outline, sound and salutary, and he congratulated the author on a clear presentment of well-recognised principles. But when he referred to the "possibilities of the future" in the development and expansion of educational facilities, he left the actual for the speculative. It had been assumed so far, and not without good reason, he continued, that the preliminary examination in general knowledge, at times called cultural, with its equivalent in matriculation or corresponding tests, or further, by the taking of a University degree, was an adequate and approved method of mental equipment before articles were entered upon, from which period the theoretical and practical training in accountancy usually began. He assumed that Mr. Keens did not propose to substitute for the cultural tests a combination of general knowledge and preliminary accountancy. The mixture

\* i.e., an audit by Chartered or Incorporated Accountants.

might lessen the scope and thoroughness of the scholastic process, and give as a partial substitute but a scanty and ill-conceived review of the elements of accountancy, as he thought that few teachers at school or the Universities had the necessary qualifications. What might, however, be useful, would be a course of accountancy after leaving the school or the University, of from three to six months' duration under qualified and experienced accountants who should be able, during that period, to teach the fundamental principles of accountancy in its broad aspects, so that when articles were entered into the clerk would have a fair grasp of their elements and, by such means, be able to take a more intelligent interest in his work, and understand better what he was called upon to do. Another suggestion (the fourth one) was already, in effect, operative. Facilities did exist in the lectures arranged by the local Societies of Chartered Accountants throughout England and Wales, and in Scotland, and by the London Members' Committee, which served to maintain, stimulate and widen interest in professional, economic, banking and commercial problems, and which were attended by qualified Chartered Accountants. But there could never be compulsion. The most that could be done was to offer, and make readily available, the broad tributaries of knowledge, and to circulate, as was now done, through the medium of *The Accountant*, newspaper reports of the lectures. Sir William said that it might be worth while to explore the idea of co-operation with the educational authorities, and to have at one of the Universities, in the summer recess, what were popularly known as post-graduate courses, in certain developments of accountancy. The London Members' Committee also gave advice when appealed to on questions of practice and ethics, and when new legislation came into force the Council of the Institute of Chartered Accountants took the opinion of eminent members of the Bar on questions arising out of such legislation affecting the duties and responsibilities of auditors, and circulated these opinions among members of the Institute. That course had been followed quite recently in connection with the new Companies Act which would come into operation on November 1st, 1929. The concluding part of Mr. Keens' address dealt with registration for the profession in Great Britain. The author had been careful to point out that the views expressed were those of the Incorporated Society only, but it was perhaps desirable, so as to avoid the possible assumption that Mr. Keens' views were shared by the Chartered Accountant bodies in England and Wales and in Scotland, for him (Sir William) to emphasise that the Chartered Accountants had not so committed themselves. The speaker went on to say that registration as now apparently contemplated, had not been clearly defined. It was a sweeping and comprehensive term, and its full significance might not be apprehended by all its advocates. Its recent re-incarnation had been assisted by the remarks made by the Chairman of the Local Legislation Committee of the House of Commons, and it was conceivable that those remarks were partly prompted by opposition to restrictive audit clauses in Municipal Corporation Bills, causing the time of the Committee to be unduly occupied in hearing opposing views. Registration, apparently, implied monopoly, as Mr. Keens said in his address that "a person not on the register will not be entitled to practise, and if he attempts to do so he will be subject to penalties."

One might well ask: "What constitutes practice?" How would this aspect of the question be regarded by bankers, solicitors, estate agents and many others who did no inconsiderable accountancy work, though not holding themselves out as carrying on public practice as ordinarily understood? Were they to be restrained from fulfilling accountancy duties of a limited nature committed to them by their clients and customers? Further, was there a public demand for registration? He had never seen any real and tangible evidence of a demand. Now and then there were isolated letters of complaint in *The Accountant*, of unprofessional methods on the part of men to obtain business, who were not subject to discipline. But was this widespread or serious? Sir William took leave to doubt it. The public already discriminated, he said. And when he told them that a very high and preponderating percentage of the audits of banks, financial houses, and companies of all classes incorporated under the Companies Acts or by special legislation, and whose names appeared in the Stock Exchange Official Intelligence (published annually), was done by Chartered Accountants, it was a fairly complete justification of the plea that discrimination was made by Directors and Shareholders in their selection of professional practising accountants to act as auditors. The net would have to be widely spread to include the army of applicants for registration. Not only would existing bodies—and they were many—claim its privileges for their members, but there would surely be a host of other men carrying on some form of accountancy business, who would seek to be enrolled. Where would it end? he asked. The effect would be to raise in the public mind the status of an immense number of people, who were little regarded, to a uniform level which their attainments did not justify. Was that for the public good? And in the process of levelling up, would not the members of the profession, particularly the younger men already qualified and whose attainments were recognised by a discerning public, suffer somewhat by the huge increase of competitors of assumed equality? That possibility needed, and would have to receive, full consideration, he went on. He had not touched upon all the criticisms which registration would be exposed to. He was content for the moment to refer briefly to the salient and obvious questions which arose. It was true that eighteen years ago the Chartered Accountants had not been unwilling, in the then condition of things, to have moved toward registration in company with the Incorporated Society; but, after a lapse of so many years, it was more than doubtful if registration now would appeal to the general body of Chartered Accountants. Evidence had been collected in recent years from committees of local societies throughout England and Wales, and it could not be said that they favoured the proposal, nor could he say that the Council of the Institute did; but they preserved an open mind. The subject required much more exploration than it had yet received, and they needed a clearer and more precise definition of registration and its implications than had yet been promulgated, as far as he knew. A full and impartial inquiry into the whole subject should precede any commitment to the principle; and this was the considered opinion and attitude of the Institute of Chartered Accountants in England and Wales and of the three Scottish bodies of Chartered Accountants. Too high a price might be paid for an ideal that in practice might fall far short of expectation. They, the Chartered Accountants of Great



Britain, were constituted by Royal Charter, and they cherished very highly that privilege received from the Sovereign of their Realm. Other bodies had been self-formed and could continue to be so formed by mere incorporation under the Companies Acts. They were in another category—however good might be the attainments of their members, and their view of the situation was taken from a different angle from that of the Chartered Accountants, and possibly also from that of the large and influential section of the public which counted and already discriminated. He understood that accountancy was not a monopoly in the United States. There were a few, a very few, States which sought to limit public practice to certified public accountants or public accountants of the State, but it might be asked, was that not a monopoly and against the Federal Constitution? These cases were exceptions, and in the large majority of States in the Union there was no restriction on a man, carrying on business as an accountant and auditor, provided he did not call himself a certified public accountant.

Mr. W. GREENHILL (Edinburgh) said he desired to associate himself with the remarks which Sir William Plender had made on the subject of registration for the profession in Great Britain. He thought he might say that the title of Chartered Accountant was not less honoured in Scotland than it was in England. As it was now 75 years since the first Scottish Charter was granted, it might even have been that the position of Chartered Accountant was more strongly established in the North than in the South. There was in Scotland little evidence of any desire on the part of the profession for registration. With regard to the public, or that part of the public which took any interest in accountancy matters, he believed they were absolutely satisfied with the services they received from the profession as now organised. If, however, registration should ever become a practical question in England, then he thought it would be agreed that legislation towards that end would require to apply to Scotland also, in order that accountants in the one country might be free, as at present, to exercise their profession in the other. Before any action on registration could be taken the whole question would have to be very carefully considered. Its advocates would have to submit to an explicit definition of what registration meant or stood for, and tell them what benefits they hoped to attain by its introduction. While it was desirable to keep an open mind on that important subject until it had been more fully explored, one could not but be impressed by the difficulties which lay in the way. Any movement of the kind might lead to an impression being formed that a monopoly was being sought. Whether such an impression were right or wrong, he was afraid that in these democratic days it would be sufficient to inspire a certain amount of opposition on the part of the public. Again, was there any evidence of a public demand for registration? He was satisfied that there was none in Scotland. Finally, there was the question who were to be admitted to the register. Parliament would never consent to take the bread out of any man's mouth. And it might therefore be taken for granted that on the first establishment of the register the doors might be opened very widely. Was there any certainty that the sacrifice which this would demand from the present generation of well qualified accountants would be outweighed by the somewhat problematical

benefits which might be obtained later? Those were only a few of the difficulties which led him to suggest that the most careful consideration was necessary before making radical alteration in the organisation of a profession which, he believed, was at present serving the business community of England with general acceptance.

Mr. T. ATKINSON GILLESPIE (Member of Council, London Association of Accountants, Limited) said Mr. Keens' paper did not convey to the Congress the correct position in England. As an exposition of the position in England it was sadly disappointing. But apart from the sectional and limited viewpoint of the paper, he said there was much on the subject of education with which he agreed. The Association he represented had made no inconsiderable contribution to professional education in England. Now the sections of the paper to which he wished particularly to refer were those dealing with legislation and registration. Both those sections were misleading. In the first place, sect. 3 (c) was calculated to give the impression that the British Parliament had inferentially determined to maintain the audit clause to which Mr. Keens referred. That was scarcely the case. The fact that the author of the paper had to go back fifteen years to find a quotation to support his statements was in itself an indication of the weakness of his case. He was at a loss to understand why Mr. Keens should go back fifteen years when much more recent quotations of 1928, and this year, 1929, would have better described the position. Mr. Keens had failed to inform the Congress that in 1928 the Chairman of the Parliamentary Committee which heard the Petition of Mr. Gillespie's Association stated that the general view of his Committee had been that for the future that clause should not be so circumscribed. Was that not a clear indication diametrically opposed to the inference drawn by Mr. Keens in his paper? The next section was 3 (d). In this section the author discussed registration, and again he was misleading. It was on the action of Mr. Gillespie's Association on the Chester Bill that the Local Legislation Committee made the declaration mentioned and partly quoted in this chapter. But why had Mr. Keens not quoted the whole of the short decision? Why had he quoted the part which suited his purpose, and omitted that which did not fit in with the picture he wished to present to the Congress? Mr. Gillespie begged leave to suggest that it was because the remainder of the decision disproved all that he had previously stated or inferred. The decision of this Committee in April of this year confirmed and supported the opinion of the Committee of the previous year. The Committee were, like the one in 1928, convinced that the present position should not continue, and, after saying what Mr. Keens had quoted, the decision went on to say that in the opinion of the Committee "all qualified persons should have the opportunity of giving public service." Was it not clear from those two recent statements of the only impartial public Committees dealing with this matter that they did not intend to maintain the present position, but on the contrary they gave a clear intimation that if the profession did not do something to remedy the unsatisfactory features existing to-day the Committee itself would do so when the matter next came before them? The position of registration in England had become more than a professional matter. The Legislature had offered the profession the opportunity to promote a system of registration. If the profession failed—

which he hoped it would not—then Parliament would take a hand in the matter. His Association had through fair weather and foul stood for registration, and it was encouraged and gratified that through the strength of its claim the matter had been revived in England, and that Parliament had taken cognisance of the present unsatisfactory position. That was the position in England, a position which, to say the least, was certainly not correctly portrayed in the paper submitted to this Congress. He then quoted the decision of the Local Legislation Committee of the House of Commons, which appeared in the *Incorporated Accountants' Journal* of May, 1929:—

"I am desired to say that, in the opinion of the Committee, sound and reliable accounting is of paramount importance to industry, commerce and the investing public, and with a view to establishing an efficient accounting public service we consider the time is opportune—in fact we think it has arrived—for establishing a register of properly qualified persons, on the lines of the law and medical service, and we suggest to the accounting world that they should seriously consider the matter of the register, the training and the qualifications, as the Committee feel that all qualified persons should have the opportunity of giving public service. We trust that our observations will be considered seriously, because although nobody can tell who will be on this Committee in the next Parliament, those who are on the Committee will have some difficulty with a clause like this unless something is done by the accounting world, and we therefore ask the accounting world to take note of our observations."

Registration had been referred to as the burning question—that was perfectly true; it had become to-day in England a question of paramount importance, not only for the public benefit, but for the protection of the oncoming accountant.

Mr. A. H. MUIR (Belfast) said that at the Congress held in Amsterdam he gave expression to the Irish view regarding registration, and that view was that there should be some guarantee that when a man held himself out for employment by the public as an accountant, he should be possessed of the necessary qualifications and should be a man of integrity subject to discipline. Subsequently to that Congress a Bill was submitted to the Senate of the Irish Free State for the registration of public accountants. It was introduced by the Chartered and Incorporated Accountants of Ireland. The Bill necessarily did not meet with the approval of other bodies who wished to be included on the same basis and as having the same status as the promoters. The Bill applied to practising accountants in the Irish Free State. A practising accountant was defined as: "Any person who (either as an individual or as a member of any firm) holds himself out to the public as ready to undertake or perform within Saorstát Éireann business as an accountant or auditor for remuneration." The Bill proposed that the governing body should consist of five practising members of the Institute of Chartered Accountants in Ireland; four practising members of the Society of Incorporated Accountants, and three practising members not associated with those bodies. That was giving a fairly wide basis of government. It had been rightly said that no one had the right to take away a man's livelihood; and the Bill provided for including in the register Chartered and Incorporated Accountants practising

in Ireland and any persons who proved that they had been in practice in Ireland prior to the passing of the Bill. Provision was also made for admitting to the register clerks of practising accountants provided they passed an examination within a limited period of years. Provision was also made for the admission of members of other bodies whose standards might, in the opinion of the governing body, be considered adequate and sufficient. That was briefly the outline of the Bill. That Bill failed to pass the Senate by three votes, the voting being for the Bill fifteen, against eighteen. It might be interesting to mention the principal reasons which were put forward in opposition to the Bill. It was said that the Bill was unnecessary and that it created a monopoly. There appeared to be a lack of confidence in the governing body and objection was taken to the fact that the Government itself was not represented upon the governing body. One of the strongest points made against the Bill was that it would act detrimentally towards the poor man's son. One of the provisions of the Bill was that articles should be essential for every future applicant for registration. The Incorporated body make a point of admitting members without articles provided they have had experience in the office of a practising accountant, but that point was waived in order to get unanimity. Another objection was that it would be impossible for small traders in country towns to have their accounts prepared for them by the village schoolmaster or the village stationmaster. The absence of unanimity among the accountants themselves was strongly commented upon. This was one of the great difficulties owing to the multiplication of bodies of accountants having lower standards of competency and conduct desiring recognition on the same basis as those bodies whose diplomas had a world-wide significance and prestige. The problem was how to preserve the standards which had been created by years of effort and at the same time make the register wide enough to include all practising accountants. It might be said that in spite of failure to have the Bill passed, the status of the Chartered and Incorporated Accountants in Ireland was higher to-day than it was then, as their work and certificates were accepted to a still greater extent in preference to those of outside accountants.

Mr. ARTHUR COLLINS (London) said that it would be a bad thing for him if those present got it into their minds that because he was a Britisher he proposed only to deal with the British aspects of the subject. It was difficult for one to restrain himself from so doing, because that matter was one of acute controversy in England at that time. He referred to an old joke about the Irishman who, on landing in New York and seeing a fight take place in the street, turned to his neighbour and said: "Is this a private fight, or can anybody join in?" So he proposed to deal with the subject internationally, because it would be sufficient perhaps to say that he conceived the function of these meetings to be primarily the cultivation of the international mind in accounting, so that they might all benefit from practices in other countries which had proved to be of benefit, and that they might examine them and see whether, collectively, they might derive benefit from those who had made experiments in other lands which their local conditions theretofore had not permitted them to do. In that spirit he desired to ask the Congress to consider with him for a moment what were the objectives



desired of those who stood for registration (For the benefit of other foreign delegates he wished to explain that by "registration" they meant a measure which would close the profession to those who had not, by some process or other, been inscribed on the register.) He suggested with some diffidence that he was not far from the truth in stating that there were three objectives to be attained by those who favoured the closing of the accountancy profession. They might not agree with the order in which he quoted those objectives, in fact he would not wish to be dogmatic either upon the order or upon the substance of his observations, but he would mention first, the promotion of accountancy as a science, in the hope that it might ultimately stand upon the same plane as law and medicine. That involved a code of ethics, a system of discipline and many other matters incidental to a closed profession. He desired to ask them whether they were attempting to reach a goal too high for attainment if they set out at any rate with the object of making accountancy as much respected and as well protected as law and medicine. If their answer was that they were aiming too high, then he feared his subsequent arguments might not convince them. Another argument related to the protection of the public. It would be impossible to say that any large company in any country did not know the distinction between a qualified and an unqualified accountant, but there was still a large field of accountancy practice in which it would not be possible always to say that those responsible for the management of a company knew what was the difference between a qualified and an unqualified accountant. The point they ought to keep in mind was that no matter how many societies there might be in one country it was, in his opinion, necessary in the public interest that all those bodies should aim at a minimum level of efficiency amongst their members, and that only those who had attained that level of efficiency should be entitled to practise as accountants. The third objective surely was the standardisation of the degree of efficiency at which they should aim for registration. They had a right to impose that standard. He asked them not to think that they could ever standardise men, or that they could ever standardise human nature. All they should do was to try and promote a certain standard of efficiency, and in so doing he thought there would probably be a good case to be made out in many countries for a greater endeavour to be made to secure a standard of efficiency than most countries could then show. He supposed that in most countries there were from three to ten recognised societies or organisations of one form or another practising accountancy. Would it be too much to suggest that at any rate there might be a common standard examination instead of separate examinations by each practising body? Would not that of itself secure the attainment of a certain level of efficiency, and when that minimum standard had been attained was there any reason why all bodies should amalgamate into one body? Was there any reason why the separate bodies should close down? Would it not be better for them to continue to exist, and that those who passed the standard should be as free as they were to-day to decide whether they should be Chartered Accountants or Incorporated Accountants, or any other style of accountants, and free to decide to which of the organisations or associations they should belong? But it did seem to him that if those three objectives were correctly and fully stated, a substantial majority

might be found to agree with the first and second: that was, the elevation in public opinion of the profession, and the protection of the interests of the public by closing out the inefficient, but that all the controversy would centre upon the methods of doing it. Now was it beyond the wit of men engaged in a scientific business like accountancy to devise machinery which would meet the general case for closing the profession, and maintaining a minimum standard of service? It was so easy to stand on a platform of that kind and offer destructive criticism on matters of that nature; but it was terribly hard to stand up and put forward something constructive. He suggested that if they concentrated on constructive thought on that matter they might come to the conclusion, after looking at the experience of all the countries represented in that great company, that they might ask the Committee on Resolutions to say whether the Congress could not go on record as in favour of closing the profession and establishing a minimum standard of efficiency. That was the practical suggestion which he respectfully offered to Congress. They had received and read a wonderful collection of papers. He did not suppose that in the history or experience of any of them they had ever seen so many statements of national practice as were now before them. And he wished to ask those present: were they going to allow that valuable collection of records of practice and experience merely to be laid on the table or were they going to convert it to the use of all nations? He hoped it would be in the latter spirit that they would approach those problems; and that as the outcome of that great International Congress they might place themselves on record as in favour of closing the profession in the course of time, and establishing a minimum standard of efficient service. (Applause.)

Mr. D. SPRINGER (Washington) said that he was very much interested in two or three comments in which the suggestion was made that there had not appeared very much of a public demand for the type of legislation which would include a register. There had not been any "great public demand" for the handing down of the Ten Commandments, but, as he recalled it, they had been of considerable assistance to individuals, communities and nations. There had been a considerable public demand that was the forerunner of what was known in the United States as the Eighteenth Amendment, and he felt safe to say that if the accountants of the entire world were to determine by vote which of those two documents they more closely adhered—that which came not as a result of public demand, or that which came as a result of public demand, they would take the one in which public demand was absent. He thought that most of them were apt to approach that question from the standpoint of their own individual desires and feelings, and as a general rule they were in the position of the man who said: "There are two things of which I am proud: I am a self-made man; and I adore my Creator!" Most of them were willing to admit offhand—those that were members of organisations that were represented in a gathering of that sort—that they were pretty good accountants and, judging the matter from their own individual standpoint, they hardly saw the necessity of taking the rest of the people into consideration. The question was whether they should decide in a matter of that sort from the standpoint of their individual relationship or from the standpoint of their citizenship. So far

as the United States was concerned he could hark back to the day when the lawyer was absolutely under no control, when the doctor was absolutely under no control, and the dentist and the architect were similarly situated; in fact none of the professions was regulated in any manner. He said to them that they never would have had the control of the legal profession in the United States at all had they waited till the public demanded it. He said to them that they would never have had control of the medical profession in the United States had they waited till the public demanded it, and he doubted whether in any country in the world they would have had the beginning of accountancy legislation in any form had they waited till the public demanded it. In the United States they regulated the professions as a result of the activities of the professions themselves—law, medicine, architecture, dentistry, and everything else. In England and Scotland the start that was made was made by the accountants themselves, feeling their way, and if the time came when they should change from the type of control which they now had to the public type of control, it would not be because of a public demand, because that was not the way things were made in the world. They were made as the result of the interest and the knowledge of the people who were associated in the maintenance and the carrying on of the profession. It was true that so far as the United States was concerned a relatively small percentage of the States had regulatory laws—nine in number. Twenty-five per cent. of all the public accountants' certificates issued in the United States had been issued from and by the nine States that had regulatory laws; so that within four and a half years there had been a pretty fair start. He was not a prophet, and he was not going to prophesy that the United States was on the road to regulatory laws in the next five, ten or fifteen years; but it was a fact that the regulatory type had developed twice as rapidly in the time that it had been before the people as did the other type of legislation. He believed that the public had become quite discriminatory as to the good, the bad, the better and the best type of accountants, but it was only that portion of the public that had experience in dealing with them as citizens. They had a right to assume a certain degree of responsibility and say—not that they had a right to protect themselves, because he felt that was the weakest argument that could be used—but if they were public-spirited they had the right to protect the man who was not so well protected as their clients. Their clients had been dealing with good people, but some of the other men had not been dealing with those that were as satisfactory. It seemed to him that the question before them was to decide whether they should be desirous of thinking of themselves first and only; and then secondly he would like to support the suggestion of the previous speaker—that the matter of details was a matter that could be worked out.

Mr. MAURICE E. PELOUBET (New Jersey) said that after listening to the various views that had been expressed by the speakers who had preceded him he felt somewhat confused on the question of registration; Sir William Plender had thrown light on the matter; then Mr. Collins had dealt with the matter from another angle, and finally, after listening to Mr. Springer's address his state of confusion remained. He felt that represented pretty much the state of mind of most of those present in regard to that

question—a question that had been investigated by a Commission appointed by the accountants of the State of New York. That Commission had spent some months inquiring into the subject, and had obtained information from a variety of sources, and taken a considerable amount of evidence. The only definite conclusion at which they had been able to arrive was that to close the profession in a State like New York was impracticable. He did not know whether that could be regarded as destructive criticism, but it was the main conclusion of a number of men of considerable experience and knowledge of the matter with which they had dealt. He did not consider that Sir William's remarks had been destructive, either. It appeared to him that to raise the standards and to educate the public was a better and more effective method of dealing with the problem than by bringing into operation what might be termed legal forces. The public in the United States, in much the same way as Sir William Plender had described the position in England, were coming to recognise qualified men. As they improved their standards, and particularly as they had more and more public service, the public generally would discriminate between the qualified and the unqualified men in the country. They must recognise that accountancy practice could not be confined to one State; practically every accountant practised in two or three States. He ventured to think there were some firms that had as many as twenty accountants who practised in as many States. He felt that anything that tended to prevent an accountant from practising in another State was a dangerous thing; and it was equally as bad for the small practising accountant in the sparsely populated State as it was for the larger firms in the thickly populated States. They all realised that most of their work was of what might be called an emergency character, and they could not go through a lot of formalities before being allowed to practise in other States than their own. Their first idea should be to serve their clients. Anything that interfered with that principle was bad; anything that made it easier to serve their clients was good. Freedom to practise in all the States was, to his mind, greatly to the interests of their clients. They all knew the effect of restrictive legislation—he was not referring to the "notorious" Eighteenth Amendment, but to such measures as those embraced under Anti-Cigarette Laws, laws regulating the length of ladies' dresses, and that sort of thing. They were all familiar with what could only be described as freak legislation, and knew how thoroughly ineffective it was. They could achieve much more, apart from legislation, by developing higher standards all the time. The strong States were maintaining their standards. There was the American Institute of Accountants, which had uniform standards throughout the country. That body had no legal status in the sense that the Certified Public Accountants had. However, those were two uniform standards that were maintained. Was it not safer to improve their standards and to make them better known than to try to put through an artificial way of closing the profession? They should adopt a policy of "growing" first; he urged them to wait until they knew just what they wanted, and then to tackle the problem. In the meantime they should leave themselves free to develop as best they could, free to develop in their own way to the benefit of their clients, and to the benefit of the public.



**Mr. Keens' Reply.**

Mr. THOMAS KEENS, in replying, referred to the short space of time allotted him in which to deal with the criticisms of his paper, and reminded delegates of the predicament of Don Cesar (in the opera *Mari-tana*), who was condemned to death, and who when asked if he desired the offices of a priest, as he only had two hours to live, retorted that it was impossible to confess the sins of a lifetime in two hours—that he would require at least two years for the purpose! In the circumstances he would confine himself to a few observations on some of the points that had been raised during the course of the discussion. For the sake of those who might not appreciate that there was some difference of opinion on the subject of registration between Sir William Plender, himself, and Mr. William Gillespie, he desired to make the position quite clear. Mr. Gillespie had charged him with not having stated the question quite fairly. If Mr. Gillespie had been fair enough to follow the rules of public controversy and had given him notice, he would have checked the quotations that had been referred to. But he (the speaker) had not been given any opportunity of doing that. Also, in the Committee of the House of Commons, to which attention had been called, it was Mr. Gillespie's Society which petitioned to be included, and which failed as on many previous occasions. He submitted that his statement of the whole position as presented in the paper he had prepared was an accurate statement, and required no addition or enlargement. As between the Institute of Chartered Accountants and the Society of Incorporated Accountants, there were certain differences as to conditions of qualification, but broadly speaking those two bodies demanded that the applicant for admission should not only satisfy the examination requirements, but should produce evidence of training in the office of a practising accountant for a number of years. The London Association did not specify that requirement and they considered that experience in any firm was equally good. It therefore followed that, holding diametrically opposite views as to the quality of training required, they came to entirely different conclusions. It would also be remembered Mr. Gillespie stated that registration was a cardinal policy of his Association; and therefore it appeared that he (Mr. Keens) was being attacked for advocating the same thing, from which it was reasonable to infer that when they spoke of registration they did not necessarily mean the same thing. Something had been said of what happened in connection with the Bill introduced into the Senate of the Irish Parliament. That Bill had been thrown out for reasons which had always appeared to them to be totally inadequate. But at any rate that Bill had, in fact, clarified the issue as to what registration meant. It undoubtedly meant a register being set up, and the right to practise being dependent upon inclusion in that register. It had been said that the fullest possible inquiry was

essential before legislation was launched on this question. With that he was in complete agreement. Sir William Plender had told them that there was no evidence of a general demand, but Incorporated Accountants believed that the result of the inquiries that had been made would show that there was a very widespread demand for such control as had been advocated, not only throughout the profession, but throughout the country generally. He wished to say that he was perfectly aware that the practising accountant in the great centres had probably very little practical experience of what the pressure was from the unqualified side, but during the preceding three years he had occupied the presidency of his Society; and he had had occasion to cover the greater portion of the British Isles two or three times, and wherever he had been he had been asked by members of the Society or members of the Institute if something was not going to be done to obtain regulation of the profession on the lines of law and medicine, and of the most recent example, dentistry, and pointing out the difficulties which arose from qualified men having to contend with unqualified men practising without let or hindrance. Therefore, he suggested, it was quite possible that provincial opinion, even in England, would show to the Council of the Institute that there was a greater demand than they seemed to think. He did not wish to press that, but he wanted to make the point that it had been admitted there on that platform that eighteen years previously a Joint Bill was introduced into the British House of Commons, having for its object the registration of the profession of accountancy. The difference was that their friends had moved away from that objective, while they had remained constant to it. The intervention of the Great War had made it absolutely impossible to contemplate any legislation of that description. As a matter of fact, he doubted whether the Parliament of Great Britain could, for some years to come, afford the time to get a Bill of that kind dealt with, taking into consideration the vast amount of preliminary work such a measure involved. He was glad to hear from Sir William that he had an open mind on the question, and agreed with his suggestion of the desirability of exhaustive inquiry in order to ascertain the facts before launching legislation. Then, in reply to the argument that had been heard that it would raise the status of a great many people, he said that that undoubtedly was true, but he believed that that was the price which would have to be paid for the regulation of the profession. He felt that it was a price that the younger members of the profession could afford to pay, and ought to afford to pay. He entirely agreed with those speakers who had expressed the view that Parliament would never deprive—or allow to be deprived—any man of the means of earning his livelihood; and therefore they would have to make provision to take in all those who were *bona fide* in practice. The speaker referred to Mr. Greenhill's statement regarding the difficulties

to be faced in connection with the question of registration. Obviously there were difficulties; if there had been no difficulties they would not then be discussing the matter. The Bill would have gone through in 1911, in which event the profession would have been under regulation, and the British delegates would have been able to bring to that Congress—not their ideas or theories on the subject, but a record of their experience of what had been done. They were not appalled by the difficulties that existed, but they believed that unless the question were tackled in the United Kingdom in a comparatively short time the difficulties would become greater and greater, and the price that would have to be paid would be much greater than it then was. Mr. Greenhill had referred to the difficulties experienced by accountants in Scotland in connection with the matter they were discussing. He was surprised to hear a representative of a country whose history recorded the successful strivings of the Scots against difficulties throughout the centuries, refer to obstacles presented in that regard. He was perfectly certain that when they (the Scots) once determined to deal with the position on definite lines they would find the difficulties vanishing before their attack. They had heard from Mr. Muir a very clear account of the experience of their Irish colleagues, and the fate of the Bill that had been promoted there. He felt that if it had not been for the definite political opposition in that country the Bill would have gone through. In his opinion it was a Bill that merited passage into legislation, and one that would have been greatly to the advantage of the whole profession had it reached the statute book. One argument which appeared to have weight in Ireland against the enactment of a measure of control of that character was that it would close the profession to the poor man's son. The body which he represented had always taken the line that there should be nothing to stand in the way of the son or the daughter of the poor man, if duly qualified, having the right to practise. He felt that it was largely a question of policy. Mr. Springer, the speaker said, had dealt with the whole question from an international point of view, and had incidentally said that he had recollections of the time when other professions—law, medicine—had been unregistered, and had seen the process of regulation introduced into these professions in the United States—regulation which was of unquestionable benefit to the whole of the community. He felt bound to say that he could not see why the one profession to be left unregulated for the benefit both of those engaged in the profession, and for those whom the profession served—should be the accountancy profession.

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Mr. Frederick Arthur Webber, Hon. Secretary, West of England District Society of Incorporated Accountants, has been elected by a large majority to represent the St. Michael's Ward on the Bristol City Council. The voting was 1,097 for Mr. Webber and 306 for Mr. Howell, the Labour Candidate.

## The Accountant's Duties to the Press and the Public

In relation to the Certification of Balance-Sheets.

A PAPER contributed at the International Congress of Accountants, New York, by

MR. C. HEWETSON NELSON, J.P., F.S.A.A.,  
*Past President of the Society of Incorporated Accountants and Auditors.*

### I. INTRODUCTION.

The title of this paper will at once indicate that the subject matter aims at something beyond the mere legal responsibility of accountants and, indeed, suggests a responsibility to the financial Press, as well as to the investing public, as distinguished from the subscriber, or to the shareholder; to the first named (the financial Press) by the realisation of the important part which it assumes in elucidating the figures contained in the accounts of public companies, or of prospectuses, as well as by placing a clear interpretation upon the words employed in accountants' certificates; and to the public, in the sense defined, by the ready acceptance of responsibility in a wider sense than was the case in the earlier years of the profession.

The practice of the profession in Great Britain and Ireland has always been in advance of legal requirement and has moved steadily forward until to-day we look back with amazement at the provision in Schedule I of the Companies Act, 1862, which enabled an auditor of those days to employ at the expense of the company "accountants . . . to assist him in investigating such accounts . . ."

### II. THE PROBLEM.

The nineteenth century produced the limited liability company and the twentieth century developed it. Investment was the privilege of the select few; it is now enjoyed by the public everywhere. Based on the conception of the limited liability company, a vast network of financial machinery has been evolved. New orientations and new ideas have arisen for the better conduct of financial, commercial and industrial business. The partnership undertaking has become the private company, and the private company has developed into the public company. We have become familiar with new forms of joint stock enterprise, such as the investment trust company, the holding company, and the issuing house. Vast mergers are promoted, accompanied by the ever-increasing process of rationalisation, and gigantic companies are formed with an international business and reputation. These enterprises—large and small—depend upon the confidence they can command in high financial circles; equally upon the assurance that the public will subscribe to the issues and buy the shares. If that public confidence is justified by experience,



the area of investment and the number of investors will continue to grow. I have no hesitation in saying that public confidence in joint stock enterprise is largely attributable to the influence and the work of the accountancy profession in dealing with the affairs of companies.

Successful enterprise and investment are based upon (1) a due consideration of facts, (2) an estimation of prospects in relation to past accomplishments and future conditions, (3) good management, and (4) a feeling of assurance and security.

Of course, much public investment is made upon the most slender and often unreliable information. But if this network of finance is to be kept in a healthy condition, intelligent individual investment should be encouraged in every way. The accountancy profession is concerned with the ascertainment and certification of fundamental facts and results, with which investors do well to make themselves familiar. At the same time it must not be forgotten that the essence of enterprise is risk, and that those who take the risk exercise control; it is they who suffer the losses of failure, and they are entitled to enjoy the fruits of success.

Let us consider the sources from which the investing public obtain information. In the first place there are "official sources"—the published accounts of companies, their annual reports, the speeches of chairmen or presidents at annual meetings; and, as regards new enterprises—the prospectuses of companies. We know perfectly well the public do not rely entirely upon these; it would hardly be expected that they should. More readily the public rely upon "unofficial sources"—they look to advice from stockbrokers, banks, and other investing agencies. They read the financial columns of the daily Press and, though less generally, the articles and news of specialised financial papers. It is just as well to realise that rumour—reliable and unreliable—plays a considerable part in the decision of investors. The public are much more interested in unofficial information: it is less technical and more easily understood; it demands less effort, and is more entertaining. But in so far as "unofficial" information is reliable, it is derived almost entirely from the continuous and intelligent study of the official information issued by companies.

We see, therefore, that the whole superstructure of investment is based upon the ascertainment of facts, their proper statement and their intelligent use. The accountancy profession, directorates of companies and the public Press have a joint and several responsibility to the public in this matter of investment.

### III. THE PRESENT POSITION.

In examining more closely the present position from our own professional standpoint I am naturally influenced by British practice, with which I am most familiar. The practice of the accountancy profession in Great Britain in relation to the preparation and certification of balance-sheets has been based upon the statutory obligation placed upon auditors

by the Companies (Consolidation) Act of 1908. In carrying out that statutory obligation, auditors are guided by a large volume of professional experience and tradition, and by a number of leading legal decisions, which have become almost classical. Sir William Plender at the last International Congress at Amsterdam, dealt with this particular aspect in his comprehensive paper on "The Accountant's Certificate in Relation to the Accountant's Responsibilities." I strongly support the principles and practice which Sir William stated on that occasion. I do not know that the auditors' duty in regard to prospectus certificates has ever been more accurately defined than by Sir William when he said:—

"... his sense of responsibility should prevent him from signing a certificate the terms of which, while technically correct, might nevertheless be presented in such a manner as to render the true results obscure and lend themselves to wrong construction."

A number of events in the last three years, however, justify further consideration of the duties and responsibilities of the accountancy profession.

First, there has been a remarkable intensification of public investment, particularly in the United States of America and also in Great Britain. The daily Press has devoted increasing attention to investment questions, and the financial columns have become more widely read. In 1925 a Committee was set up by the President of the Board of Trade in England to "report what amendments were considered desirable in the Companies Acts, 1908 to 1917" [the principal Act, of course, was the Companies (Consolidation) Act, 1908]. That Committee issued its report in 1926, and following its recommendations, the Companies Act of 1928 was passed by Parliament. This Act, however, will not have the force of law until a further Consolidation Act has been passed. Considerable comment has been made in the British Press regarding the conduct of public companies, upon the new legislation, and upon the work of auditors.

Among the activities of the Society which I represent here to-day is the work carried out by the Incorporated Accountants' Students' Society of London. That Society has been fortunate in receiving as its guests from time to time a number of financial editors of the leading London dailies and of the more specialised financial Press. They have met us in friendly discussion, and the editors have felt themselves free to state in the frankest manner their views as to the duties of auditors of companies and the presentation of accounts. I believe it to be all to the good that from time to time we should hear at first hand, and should have an opportunity of answering, the friendly criticisms which are offered to our profession. I ought to say that while giving us their critical views, these gentlemen have paid the highest possible tribute to the standard of work and conduct of the accountancy profession.

I propose to review past practice in the light of Press criticisms and the report of the Companies Committee.

#### IV. PAST PRACTICE.

I have already mentioned that the duties of auditors of companies are defined by statute in sect. 113 of the Companies (Consolidation) Act of 1908, which is as follows :—

- (1) Every auditor of a company shall have a right of access at all times to the books and accounts and vouchers of the company, and shall be entitled to require from the directors and officers of the company such information and explanation as may be necessary for the performance of the duties of the auditors.
- (2) The auditors shall make a report to the shareholders on the accounts examined by them, and on every balance-sheet laid before the company in general meeting during their tenure of office, and the report shall state :
  - (a) Whether or not they have obtained all the information and explanations they have required ; and
  - (b) Whether, in their opinion, the balance-sheet referred to in the report is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs according to the best of their information and the explanations given to them, and as shown by the books of the company.
- (3) The balance-sheet shall be signed on behalf of the board by two of the directors of the company, or if there is only one director, by that director, and the auditors' report shall be attached to the balance-sheet, or there shall be inserted at the foot of the balance-sheet a reference to the report, and the report shall be read before the company in general meeting, and shall be open to inspection by any shareholder.

The auditors' report is usually appended to the balance-sheet, and where the auditor has not any reservations to make, the report is generally given in the following terms :—

" We have audited the above balance-sheet of . . . . dated . . . . We have obtained all the information and explanations we have required. In our opinion such balance-sheet is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs according to the best of our information and the explanations given to us and as shown by the books of the company."

It will be seen that within the terms of the section I have quoted, the auditor has wide scope to carry out his investigations and obtain all the information he requires from the books, documents, and other records of the company, and such explanations as he may require from the officials of the company. It is not his business to prepare the balance-sheet ; that is the business of the directors. But the influence

of the work of the auditor may, and frequently does, have considerable effect upon the final form in which the balance-sheet is presented to the shareholders.

I regard it as a fundamental factor in the conception of a limited liability company that shareholders are entitled to reasonable information, in order that from time to time they may form an opinion of the value of their investment. Considerable discussion has taken place, particularly in recent years, as to how much and in what detail this information should be given. It is curious, however, that the Act of 1908 did not make the issue of a balance-sheet to the shareholders compulsory, although in Table A attached to the Act (being the regulations for the management of a limited company) it was provided, *inter alia* :—

- (a) The directors shall cause true accounts to be kept :—

Of the sums of money received and expended by the company and the matter in respect of which such receipt and expenditure takes place ; and

Of the assets and liabilities of the company.

- (b) That a balance-sheet and profit and loss account should be laid before the company in general meeting, accompanied by a report of the directors, the amounts recommended to be paid in dividend and carried to reserve fund ; and

- (c) The balance-sheet, but not necessarily the profit and loss account, should be circulated to shareholders seven days before the meeting.

The adoption of these regulations was optional, but every well-regulated company issued a balance-sheet in advance of the meeting, accompanied by a directors' and an auditors' report ; financial opinion would have tolerated nothing less. It certainly does seem anomalous that sect. 113 defined the powers and duties of the auditors and referred to " the balance-sheet," but its preparation and issue were not made compulsory. It is true that a certain statement had to be filed annually with the Registrar of Joint Stock Companies, but this did not necessarily mean a balance-sheet. As a matter of fact, the practice of good companies in these matters was in advance of statutory requirements. The legislature in England laid down a certain legal minimum of requirements, but fortunately this did not develop into a maximum in practice. There was, and as I shall show there still is, considerable hesitancy to lay down too many detailed provisions.

Much more could be said with regard to the duties of auditors and the practice up to the year 1928. This brief outline, and your former knowledge, will give you a summarised idea of the position which the Companies Committee reviewed, and upon which the Press has freely commented.

#### V. PRESS CRITICISMS.

I have studied carefully the papers of the leading financial editors in London presented to my Society



as they have been published, and I will attempt to summarise their criticisms.

(1) The idiom employed in the auditors' certificate was much too subtle for the average shareholder and investor. Only the general body of accountants, or a comparatively small and select body of people who are gifted with suspicious minds, could be expected to understand the true meaning of the certificate.

(2) When an auditor made a reservation in his certificate, too much was left to inference.

(3) Generally the Press criticised the lack of information given by the directors or the auditors. Financial writers discounted the injury done by a somewhat blatant publication of adverse factors, and added that no additional injury could be done by stating that was already a fact.

(4) Auditors should evolve some form of certificate which should warn shareholders in clearer language, when things were not going well, so that, if the affairs of a company were not as they should be, further investigation ought to be instituted.

(5) The valuation of fixed assets should be carried out from time to time by a professional valuer, and thus eliminate such additions to an auditor's certificate as "subject to the valuation of fixed assets." A suggestion was made that the value stated should be the cost of replacement.

(6) In regard to balance-sheet items, they viewed with dislike such items as preliminary expenses, discount on debentures, and even goodwill, as assets in a balance-sheet.

(7) The basis of valuation of shares in associated companies also gave them cause for comment.

(8) Objection to "omnibus" items in balance-sheets and profit and loss accounts.

(9) An objection to the technical practice of showing reserves as liabilities, and debits on profit and loss account as assets.

(10) As regards the over-valuation or under-valuation of assets, they believed that both should be avoided as far as possible, because the practice in either case lends itself to abuse. While the editors admitted the value of internal or secret reserves from a financial point of view, shareholders were apt to form too low an estimate of the value of their shares, and might dispose of them at considerably under their true value.

(11) The profit shown in a balance-sheet should be the actual profit available for dividends or reserve, and should not be stated to be "subject to taxation" or to any unknown deduction.

(12) Investors looked to auditors to protect their interests. Auditors alone had a statutory right of access to the books of the company, and the "free hand" of the auditors should be used against the abuse of the "free hand" by the directors.

(13) As regards prospectuses, the editors considered that more information should be given in auditors' certificates, and that in every case a clear statement of past profits—not averaged or subject to any

reservation—should be given for the information of those who proposed to subscribe.

Now, I am bound to say that these criticisms are reasoned criticisms, and they are the kind of criticisms which appeal to the public. With some of the editorial views we can readily associate ourselves. But there is a substantial answer to others. I think that our friends the financial writers hardly assessed sufficiently highly either the difficulties which auditors face or the moral influence and pressure continually exerted by the accountancy profession.

#### VI. REPORT OF COMPANIES COMMITTEE, 1926.

I will now turn to the report of the Companies Committee, which has considerable bearing upon these criticisms.

The Committee set up by the President of the Board of Trade was of a most representative character. The Chairman, Mr. Wilfrid Greene, K.C., is a distinguished member of the Bar, with a wide knowledge of company practice. The other branch of the legal profession—the solicitors—was represented. Our own profession was also represented by Sir James Martin, Incorporated Accountant, Mr. William Cash, Chartered Accountant, and Sir William McLintock, Chartered Accountant. There were also representatives of commercial interests.

The Committee received memoranda and heard evidence from a large number of individuals and public and semi-public bodies representing a wide variety of influence and opinion. I emphasise the constitution of this Committee because I feel we must pay the highest possible regard to their findings and recommendations, especially having regard to the character of the witnesses who gave evidence before them, representing every shade of thought and aspect of commercial and industrial experience. I will give a summary of the principal observations in their report, and will consider later, under the heading of the Companies Act of 1928, their recommendations, which substantially have been embodied therein.

#### (1) *Prospectuses and Offers for Sale.*

The Committee considered that on the whole the existing law was satisfactory and that any relaxation was not justified.

The Committee said:—

At present a company is not required to give any statement as to the dividends which it has paid in the past or as to the profits of any business which it proposes to acquire. It is, of course, rare to find that information of this character is omitted, but a number of prospectuses have been brought to our notice where no such information is given. We consider that the public is entitled to be told the facts which are obviously most relevant for it to know. . . . The practice of giving a statement of average profits or dividends over a period of years without a separate statement for each year is often calculated to mislead.

Dealing with offers for sale—a practice which had increased considerably in recent years—the Companies Committee considered that, as regards the information to be given to the public, "offers for sale" should comply with the law relating to prospectuses. Offers for sale had sometimes been used as a means of getting round the requirements of the law regarding prospectuses.

## (2) Accounts.

*Obligation to Keep Accounts.*—I give the following quotations from the reports:—

Under the present law there is no direct statutory obligation on a company to keep proper accounts. We consider that the law should be altered so as to make the keeping of such accounts compulsory. In the case of companies it is for obvious reasons impossible to specify with any elaboration the accounts to be kept and our recommendation goes as far in this direction as we consider to be practicable.

*Form of Accounts.*—With regard to the form of accounts, although in general we consider that shareholders and others concerned have little ground for complaint, cases occur where the information given by the accounts is of a scanty nature, particularly where assets are so grouped together under one heading that the true position of the company cannot readily be ascertained. We think it most undesirable to attempt to lay down hard-and-fast rules as to the form which a balance-sheet should take, but we consider that the recommendations set out below will help to remove some of these grounds for complaint. The matter of accounts is one in which we are satisfied upon the evidence before us that within reasonable limits companies should be left a free hand.

*Filing of Accounts.*—With regard to the filing of published accounts . . . we consider that in lieu of the present statement the last audited balance-sheet of the company should be filed.

*Holding Companies.*—The position of holding companies, with particular reference to the form of their accounts, has been much discussed before us, and the evidence discloses a considerable divergence of views on the subject among both commercial men and accountants. Complaints have undoubtedly been heard from shareholders in such companies that the information given to them by the accounts of the holding companies is unintelligible without fuller details as to the position of the subsidiary and associated companies. Some witnesses take the view that the publication of a consolidated or combined balance-sheet for the whole group of companies should be made compulsory. We do not agree with this. Many holding companies have adopted the practice already, and we consider that the matter should be left to the shareholders to make such requirements as to the form of their company's accounts as they may think proper. It is often forgotten that it may be in the best interest of the shareholders themselves that the accounts should be in a certain form, and we consider that undue

interference by the legislature in the internal affairs of companies is to be avoided, even if some risk of hardship in individual cases is involved.

## (3) Auditors.

We are of opinion that in general the law as it stands with regard to the powers and duties of auditors is satisfactory. It would be a mistake in our view to attempt further to define these by statute having regard to the multifarious circumstances which in practice arise. It appears to us far better that the law should retain its elasticity in this respect than that an attempt should be made to confine it within the bounds of a rigid formula. Cases in which auditors fall below the level of their duty are few and far between. On the other hand, we consider that the protection which the ordinary "wilful default" clause gives to auditors as was decided in the *City Equitable* case, is as unwarranted as it is in the case of directors, and we recommend that it should be forbidden. As a corollary to this, we consider that auditors should be entitled to relief under sect. 279 in the same manner as directors.

Certain of the alterations in the law which we have recommended on the subject of accounts will strengthen the position of auditors by giving statutory sanction to what is already the best professional practice.

*Verification of Securities by Auditors.*—It has been suggested to us that the certificate which an auditor should be entitled to accept as to the existence and custody of the company's securities should be fixed by statute, e.g., the certificate of a bank. The evidence does not, in our opinion, show that any such change in the law is required. Circumstances may justify the acceptance of a certificate in one case which a careful auditor would refuse to accept in another, and we would prefer to see the matter left to the ordinary law of negligence which is sufficiently elastic to meet all cases as they arise. Our recommendation with regard to "wilful default" clauses in Articles gives point to this argument.

I consider these recommendations speak for themselves. I would, however, place emphasis upon the view of the Companies Committee that:—

- (i) It was better that the law should retain its elasticity in regard to the duties of auditors;
- (ii) Within reasonable limits, companies should be left a free hand in regard to accounts; and
- (iii) Undue interference by the legislature in the internal affairs of companies is to be avoided.

## VII. THE COMPANIES ACT, 1928.

### (1) Accounts (Regulations in Regard to) (Sect. 39).

The effect of the principal sections relating to accounts is as follows:—

- (i) Proper books of account must be kept of money received and expended, with explanations; of sales and purchases; of assets and liabilities.



(ii) Heavy penalties are imposed upon directors for failure to do so.

(iii) A profit and loss account must once a year be laid before the company in general meeting.

(iv) A balance-sheet, covering the same period as the profit and loss account, must be prepared annually and there must be attached thereto:—

A report of the directors as to the company's affairs;

A recommendation as to the amount to be paid in dividend or carried to reserve fund, general reserve, or reserve account;

A copy of the auditors' report.

(v) The balance-sheet and other documents required by law must be circulated to those entitled to receive a copy seven days before the annual meeting. Facilities are provided for preference shareholders and debenture holders to obtain a copy.

(vi) Failure by directors to comply is punishable by heavy penalties.

It will be seen that the preparation of a balance-sheet and a profit and loss account is made compulsory, but the profit and loss account need not be circulated. This I personally consider a distinct weakness.

## (2) Form of Accounts.

(i) *Profit and Loss Account.*—Although the presentation of a profit and loss account is made compulsory, provision is not made as to its form. The legislature has avoided—as in the case of the accounts to be kept—the promulgation of a circumscribed method. Such a prescription, it has been suggested, might have defeated the object in view by conferring immunity upon those conforming to the letter but evading the spirit of the law. It is left to commercial practice and the directors and shareholders of each company to decide what is the proper amount of information to be disclosed in the profit and loss account.

(ii) *Balance Sheet.*—For reasons of principle laid down in the report of the Companies Committee, the Act does not attempt to provide a "model" form of balance-sheet. On the other hand, certain information must be given, thus providing that shareholders shall have annually reasonable facts relating to their interests and guarding against abuses, which might arise through non-disclosure. I will summarise the requirements as to balance-sheets. The following information must be given (sect. 40):—

(a) The authorised share capital and the amount issued;

(b) Liabilities and assets;

(c) Such particulars as are necessary to disclose the general nature of liabilities and assets and to distinguish between the amounts respectively of fixed assets and floating

assets and how the values of the fixed assets have been arrived at:—

(d) In so far as they are not written off separate headings must be shown for:—

Preliminary expenses.

Expenses of issue of share capital or debentures.

Goodwill, if ascertainable from the books of the company or from any contract or documents in the possession of the company.

(e) Patents and trade marks, if similarly ascertainable;

(f) A statement in the event of any liability being secured otherwise than by the operation of law on any assets. (It is unnecessary to specify the assets on which the liability is so secured);

(g) The aggregate amount of shares in subsidiaries or amounts owing from subsidiaries, distinguishing one from the other;

(h) The aggregate amount of indebtedness to any subsidiary companies.

## (iii) Holding Companies (sect. 40):

(a) In the case of a holding company a statement signed by the directors shall be annexed to its balance-sheet stating how:—

(i) Losses of any subsidiary have been taken into account in arriving at the profits and losses of the holding company.

(ii) The aggregate profits and losses of the subsidiary companies have been dealt with in the accounts of the holding company; in particular to what extent provision has been made for the losses of any subsidiary company either in the accounts of the holding company or the subsidiary company or both.

(b) If the auditors of any subsidiary have made any reservation in the usual form of report, the statement annexed to the balance-sheet of the holding company shall contain particulars of the manner in which the report is qualified.

If this information cannot be obtained, the directors who sign the balance-sheet of the holding company shall report in writing accordingly and the report must be attached to the balance-sheet.

(c) A subsidiary company is deemed to be one in which the holding company holds more than 50 per cent. of the capital or controls 50 per cent. of the voting power or has power to appoint the majority of directors.

(iv) *Loans to Directors and Directors' Remuneration* (sect. 79).—The accounts must disclose the amount

of loans made by or guaranteed by the company to directors or officers of the company, including amounts repaid during or outstanding at the end of the period.

All fees and other emoluments paid to directors by the company or subsidiaries must be shown, excepting special remuneration to a managing director or a director holding a salaried appointment. The tendency in the larger mergers for a large number of the board to be whole-time officials will minimise the effect of this section.

### (3) Auditors.

Certain minor amendments are made in the section of the principal Act (113) relating to the duties of auditors which need not detain us. The main duties of auditors, therefore, remain unchanged, except in so far as they are responsible for seeing that the additional provisions relating to accounts are complied with.

The independence and personal responsibility of auditors is further secured (sects. 85 and 86):—

- (i) By a provision that no person being the partner or in the employment of an officer of the company shall be qualified to be appointed the auditor (except in the case of a private company);
- (ii) By a statutory right to attend general meetings of companies at which the auditors are entitled to make any statement or explanation they desire in regard to the accounts.
- (iii) By a provision that a company may not by its Articles or by contract exempt an auditor from liability for negligence, default, breach of duty or trust, although he may apply to the Court for relief.
- (iv) By a provision that no body corporate—generally speaking a limited company—is qualified to act as an auditor (or as a receiver or liquidator).

### (4) Prospectuses (sect. 33).

A report by the auditors of the company must be given in a prospectus with respect to the profits of the company for each of the three financial years immediately preceding; also the rates of dividend paid on each class of shares. Should the proceeds of the issue be applied for the purchase of any business, a report must be made by accountants upon the profit in respect of each of the three financial years preceding.

A strong view is taken in the profession of the duties relating to certificates in prospectuses. A resolution has been passed by the Council of the Society of Incorporated Accountants and Auditors which reads as follows:—

“The Council are of the opinion that Incorporated Accountants should not certify or express an opinion on any estimates of future profits which are, or are likely to be, published.”

However carefully worded, any statements by auditors upon future profits are invariably misunderstood and ought to be avoided.

### VIII. GENERAL DISCUSSION OF PROBLEM.

I have now given you the factors in this problem. You will have seen that several of the criticisms of the financial writers have been met by the provisions of the new Companies Act, but there remain certain criticisms of matters which are either in the hands of the directors of the company or possibly of the auditors.

My own view is this: A competent Committee have considered exhaustively the whole question of company practice. Upon their recommendations an Act of Parliament has been passed, which has enlarged the responsibilities and the independence of auditors, and has laid upon directors of companies further statutory obligations. The duties of auditors of companies are defined by statute, and they are subject to onerous penalties for failure to carry out those duties. Within the limits of the Statute, I am persuaded we must exercise our powers to the full and take a high ethical view of our responsibilities.

There are those who have considered that Parliament should have insisted that certain further details should be given in the accounts of companies. Considerable pressure was brought to bear in Parliament to this end, but the President of the Board of Trade stood by the advice of his Committee and resisted amendments. Whatever individual view we may entertain, the requirements in regard to the accounts of companies are prescribed by law, and we must be guided accordingly. Wide discretion is still left to directors of companies. It is true shareholders may request or even insist that more information shall be given in the accounts, but in practice shareholders usually accept the accounts issued by companies and rarely raise questions as to their form. Financial and commercial opinion, influenced no doubt by business and economic considerations, tends to look for more than the minimum information required by Statute, and it may be that, in the course of time, further changes may have to be made. Further, the accounts are not only for the information of shareholders, but for the guidance of future investors.

I have examined the accounts of a number of well known companies, and I find considerable variation in the amount of information disclosed. In some cases a detailed profit and loss account is given showing the debits and credits under well-defined headings; in others the profit and loss account published is a bare statement giving little or no information which would enable shareholders to form a comparative opinion from year to year as to the progress of the business. In other, but rarer cases, no profit and loss account at all is given. While, no doubt, this is largely a matter of company policy, I think the influence of the profession and the Press should be directed to the publication of sufficient information both in balance-sheets and profit and loss accounts to make them intelligible, and at the same time consistent with commercial prudence.

Where companies, even at the expense of dividends make a practice of building up substantial reserves, and they are shown in the balance-sheet, shareholders



will have little cause for regret. The history of most successful undertakings has shown the wisdom of substantial reserves.

Consideration of the criticisms placed before the profession by the Press indicates the great reliance which is placed by the Press and by the public upon auditors. The Companies Committee found that the work of auditors was well done. Such trouble as has arisen in connection with companies has frequently originated with issues of capital: too large sums are often paid to vendors; shares of small denomination are issued, and may be raised to fancy prices, only to fall again, bringing loss to shareholders.

In my judgment, promoters of companies and the Press have a clear duty to the public in regard to public issues by affording full information and by seeing that there is reasonable correspondence between the assets and the requirements of the business on the one hand, and the amount of capital issued on the other. I am glad to find that recently the Press are becoming increasingly critical of issues which exhibit unsatisfactory features. In one case I know, a well known London paper refused to print a prospectus in its advertisement columns.

Promoters of companies would do well to seek more often the advice of auditors as to the amount of capital which the assets and the business of the undertaking justify. A conservative financial policy should be pursued by promoters at the beginning and practised by the directors during the course of the company's business. The Press must be outspoken when clear speaking is necessary.

While experience may show that further changes in the Law of Companies may become desirable, I consider that the Companies Act, 1928, has introduced many invaluable improvements.

The accountancy profession must see that the requirements of the Act in regard to the accounts and balance-sheet of companies are met in the letter and the spirit. In this way, and by the maintenance of a high professional standard, we can best fulfil our responsibilities to the Press and the public.

## Review.

**The Bedrock of Modern Business.** Edited by J. Stephenson, M.A., M.Com., D.Sc. London: Sir Isaac Pitman & Sons, Limited, Parker Street, Kingsway, W.C. (812 pp. Price 15s. net.)

A wide knowledge is now required by those who are responsible for the control of modern business, and this work covers the essentials of business knowledge in many of its aspects, each part of the book being written by a different author who is specially acquainted with his subject. The work consists of four sections. Section I deals with the foundation and management of a business; Section II with correspondence, statistics and book-keeping; Section III with foreign markets and commercial law; and Section IV with economics and public finance. Many diagrams, forms, examples, and other illustrations are given which greatly enhance the value of the publication. The book is well worthy of study by anyone who is responsible for the management and control of a business.

## INCOME TAX ALLOWANCES AND RELIEFS.

The following is the report of the Joint Committee of the Association of British Chambers of Commerce on the recommendations of the Royal Commission on Income Tax, 1920, with respect to allowances and reliefs. The chairman of the Committee was Mr. H. Lakin Smith, F.C.A.

1. The Committee have had before them the recommendations of the Royal Commission on Income Tax, 1920. They have given careful consideration to these recommendations and now submit the following report:—

### SECTION I.—WASTING ASSETS. (Paragraphs 180 *et seq.*)

2. In the opinion of the Committee the whole suggestion that no allowance should be made in the case of inherently wasting material assets having an estimated life of thirty-five years or longer is wrong in principle, and the Committee strongly advocate that there should be no time limit, and that all inherently wasting material assets should receive reasonable allowances. Inherently wasting material assets can be defined with absolute precision. In the opinion of the Committee the capital outlay represented by an inherently wasting material asset is always accurately described as a payment made in advance on Revenue account. The references contained in the Report to the duration of human life are not relevant in considering the computation of annual profits. The cost of educating and training a lawyer or surgeon or workman does not result in the creation of any inherently wasting material asset; it merely enables the lawyer or surgeon or workman in after years to claim the benefit of a larger share of annual production or profit than could otherwise fall to him. It is thus wholly illogical, on this or any other ground, to exclude from allowance inherently wasting material assets with a life of thirty-five years or longer. The Committee desire also to draw attention to the practical difficulties which would arise in connection with the proposed use of two imaginary sinking funds. If—notwithstanding the opinion of the Committee—a time limit is retained, then a longer limit than thirty-five years should be chosen as otherwise such wasting assets as factory buildings may be excluded. Apart from the suggested time limit, it is considered that the general proposals laid down in Part III of the Commissioners' Report would, to a considerable extent, meet the hardships now existing. But with regard to paragraph 193 on the subject of purchasing annuities the Committee consider it is wrong in principle that no allowance should be made for the capital element in purchased annuities. They think that this at present tends seriously to cramp and restrict the beneficial exercise of financial operations in many directions. In view particularly of the old decision in the *Secretary of State in Council of India v. Scoble*, and the recent decision in the case

of the *Right Rev. W. W. Perrin v. A. Dickson*, and also to the fact that a very large number of annuities are payable to persons wholly or partly exempt from income tax, it is felt that an allowance in respect of purchased annuities should be given with fairness to the Crown and to the taxpayer.

3. On the subject of income arising from wasting assets which consist of the proprietorship of natural resources of this country the Committee see no reason why income so derived should not have reasonable allowances. The Committee attach some particulars of allowances for wasting assets granted in the Dominions and in certain foreign countries. (See Appendix.)

4. On the subject of patent rights, &c., the Committee consider that as a whole it is inexpedient to raise any objection to the proposals in paragraph 197.

5. The views expressed in paragraph 205 are discussed under the general heading of Depreciation of Buildings.

6. With regard to the proposal that in order to secure uniformity of treatment from the outset questions should be left to the Special Commissioners and the Board of Referees, and especially the proposal in paragraph 207 (c), viz: "that an appeal should lie from the decision of that Board either to the Board of Referees in regard to allowances for classes of assets or classes of undertakings, or to the Special Commissioners in regard to allowances in an individual case," the Committee consider that the words "or General" should follow the word "Special," and that the words "at the option of the appellant" should follow the word "Commissioners." Recommendation (c) would then read as follows:—

(c) that an appeal should lie from the decision of that Board either to the Board of Referees in regard to allowances for classes of assets or classes of undertakings, or to the Special or General Commissioners, at the option of the appellant, in regard to allowances in an individual case.

This suggestion is made because the General Commissioners, as regards local information, would be in a specially strong position, and should, therefore, have the same power of dealing with the questions of allowances in individual cases as the Special Commissioners.

#### SECTION II.—DEPRECIATION OF PLANT AND MACHINERY.

(Paragraphs 208 *et seq.*)

7. The Committee give general approval to the proposals in this section. With regard to the complaint that the rates of depreciation allowed in certain industries are insufficient, the Committee consider that this complaint is well founded, but they concur in the view of the Committee on Industry and Trade that the existing procedure should not be changed until the present methods have been more fully tried. The Committee suggest that steps should be taken to bring to the notice of all concerned

throughout the country the facilities which exist for obtaining adequate rates of depreciation.

8. With reference to obsolescence, the Committee consider that the form of amendment already submitted by the Association to the Chancellor of the Exchequer would, with the omission of the words "*in that year*," meet the position satisfactorily. The proposed amendment reads as follows:—

*Deduction for Income Tax purposes in respect of obsolete machinery.*

Schedule D of the First Schedule to the Income Tax Act, 1918, shall be amended by substituting the following for Rule 7 applicable to Cases I and II of the said Schedule.

In estimating the profits or gains of any trade, manufacture, adventure or concern in the nature of trade chargeable under this schedule, there shall be allowed to be deducted as expenses incurred in any year an amount equivalent to the cost of any plant or machinery which has been withdrawn from use and sold or broken up *in that year*, after deducting from that cost the total amount of any allowances which have at any time been made in estimating profits or gains as aforesaid on account of the wear and tear of that plant and machinery, and any sum realised by the sale of that machinery or plant. But no deduction shall be made for any plant which has been removed as the result of a trade, manufacture, adventure or concern as aforesaid having been discontinued by the person or body of persons chargeable with tax in respect thereof.

It is also suggested that the allowances for obsolescence should cover cases where retail shops are closed and others opened in their places.

9. Paragraph 216 deals with the question of depreciation and obsolescence allowances, and precludes the arrears of unexhausted depreciation allowances being carried forward indefinitely in view of the fact that recovery of trading losses is limited to six years. The Committee feel that although this is a hardship they cannot object to the proposal so long as arrears of unexhausted depreciation brought forward to the date of the coming into force of new legislation dealing with this point are still allowed to go forward until exhausted, though from that date future depreciation allowances are to be charged as a trading expense of the year along with obsolescence claims as proposed in this paragraph.

#### SECTION III.—DEPRECIATION OF BUILDINGS.

(Paragraphs 218 *et seq.*)

10. The Committee approve generally the proposals with regard to the depreciation of mills and factories, but they feel strongly that allowances should also be made for obsolescence and renewals on a similar basis to those given in the case of plant and machinery.

#### SECTION IV.—REPAIRS TO PROPERTY.

11. The Committee give general approval to the proposals in this section in so far as the suggestions are not out of date.



## SECTION V.—EXPENSES AND DEDUCTION.

(Paragraphs 234 *et seq.*)

12. The Committee consider that all expenditure incurred with the principal object of promoting the successful carrying on of a profit-seeking undertaking and meeting its fair and reasonable obligations should be allowed and that such allowance should be apportioned where necessary. Instances of such expenditure would include the amount payable by traders to the guarantee fund of an Exhibition, and the amount of damages and costs recovered against a brewery company, owning an inn, by a customer who was injured by the fall of a chimney stack (*Strong v. Woodfield*).

*Removal Expenses.*

13. The Committee consider that the cost of removing plant as well as stock should be allowed as a trading expense, whether such removal is compulsory or voluntary.

## APPENDIX TO REPORT.

## Allowances for Taxation Purposes in Respect of Wasting Assets.

## (a) In the Dominions.

Extracted from *Income Taxes in the Dominions*.  
(Stationery Office Publication.)

## (b) In certain Foreign Countries.

Supplied by Mr. H. D. Leather, F.C.A. (Leeds).

## (c) In certain Foreign Countries and Dominions.

Supplied by Mr. P. D. Leake, F.C.A. (London).

## (a) IN THE DOMINIONS.

## BRITISH HONDURAS.

*Deductions.*

(ii) Expenditure on replacement of obsolete plant or machinery equivalent to its written-down value less any sum realised by its sale.

(iii) Expenditure on repairs of premises and plant, and for renewal, repair or alteration of any articles employed in acquiring the income.

(v) An allowance for wear and tear of property, including plant and machinery, arising from the employment of such property in a trade, business, profession or vocation (this allowance is, under the rules, calculated annually on the written-down value of the machinery or plant).

(vii) An allowance (prescribed by the rules) for annuities.

## CANADA—DOMINION.

*Deductions.*

(i) Depreciation (a reasonable allowance at the Minister's discretion).

## BRITISH COLUMBIA.

*Deductions.*

(ii) An allowance, at the discretion of the Minister of Finance, for depreciation of vehicles, machinery, plant and buildings used in the production of income, if the depreciation has been charged in the accounts.

(iv) An allowance, at the discretion of the Minister of Finance, in respect of depletion or exhaustion of mines taxed under the arrangements described in paragraph 18.

## MANITOBA.

*Deductions.*

(i) A reasonable allowance for depreciation.

(ii) An allowance for exhaustion of mines, wells and timber limits, when the income is derived from mining, oil and gas wells, and timber limits.

## AUSTRALIA—COMMONWEALTH.

*Deductions.*

(iv) Expenditure for repairs to property occupied for the purpose of producing income or from which income is derived or deemed to be derived.

(v) Expenditure for repairs and a percentage allowance for depreciation by wear and tear of machinery, implements, utensils, rolling stock and articles (including beasts of burden and working beasts) employed by the taxpayer for the purpose of producing income, such wear and tear not being of a kind that may be made good by repairs. The taxpayer may at his option obtain, instead of the percentage allowance for wear and tear, an allowance for each year of the estimated remaining life of the asset (excluding beasts of burden and working beasts) of the sum obtained by dividing its cost by the number of years in its estimated total life; if such asset is sold, the taxpayer's income for the year of sale is reduced by the excess of the depreciated value of the asset over its sale price, or increased by the excess of its sale price over its depreciated value. In calculating either allowance, regard is had to the deduction already allowed for repairs. (As regards mining concerns, see paragraph 18.)

(x) Where a taxpayer who is a lessee under a lease or the assignee or transferee of a lease, has paid a fine, premium or similar consideration for a lease or the renewal of a lease or a sum for the assignment or transfer of a lease of premises or machinery used for the production of income, the Commissioner may allow as a deduction the amount obtained by dividing the sum so paid by the number of years of the unexpired period of the lease at the date the amount was so paid. (The aggregate of the deductions so allowed is not to exceed the sum so paid if paid on or after June 30th, 1914, or the part of the sum so paid which is proportionate to the unexpired portion of the lease from June 30th, 1914, if the sum was paid before that date.) The deduction is not allowed in the case of a perpetual lease without revaluation or a lease with right of purchase, obtained from the Commonwealth or a state.

A deduction calculated on a similar basis is allowed for the annual sum necessary to recoup the expenditure on improvements on land made under covenant with the lessor by a lessee who has no tenant rights in the improvements.

(xi) In the case of a purchased annuity, that part of the annuity which represents the purchase price (this is treated by the Act as an exclusion from the definition of "income").

*Deductions Prohibited.*

(h) Depreciation of goodwill, land, buildings or improvements; wastage or depreciation of a lease or loss occasioned by the expiration of a lease. (See, however, deduction x.)

## NEW SOUTH WALES.

*Deductions.*

(c) Expenditure on the repair of premises occupied for business or producing income, on the repair or alteration of machinery, implements and plant used in business; also an allowance for depreciation of machinery, implements and plant by reason of wear and tear, where owned by the taxpayer (replacements, renewals or permanent improvements are not deductible).

(e) The annual sum necessary to recoup expenditure on improvements made under covenant by a lessee with no tenant rights in the improvements (arrived at by dividing the amount expended by the number of years unexpired).

(f) An annual allowance in respect of a fine, premium or similar consideration for a lease or for its renewal, or in respect of an amount paid for assignment or transfer of a lease of premises or machinery used for the production of income (arrived at by dividing the sum so paid by the number of years unexpired at the date of payment), if the Commissioner approves.

#### *Deductions Prohibited.*

(3) Any wastage or depreciation of lease, or any loss occasioned by the expiration of any lease (but see deduction (i) (f)).

(5) Depreciation of permanent improvements, goodwill, land, buildings, patent rights, furniture, fittings or stock-in-trade.

#### NORTH AND CENTRAL AUSTRALIA.

##### *Deductions.*

(iv) Expenditure for repairs to property occupied for the purpose of producing income or from which income is derived or deemed to be derived.

(v) Expenditure for repairs and a percentage allowance for depreciation by wear and tear of machinery, implements, utensils, rolling-stock and articles (including beasts of burden and working beasts) employed by the taxpayer for the purpose of producing income, such wear and tear not being of a kind that may be made good by repairs. The taxpayer may, however, at his option, obtain instead of the percentage allowance for wear and tear, an allowance for each year of the estimated remaining life of the asset (excluding beasts of burden or working beasts), of the sum obtained by dividing its cost by the number of years in its estimated total life—and if such asset is sold, the taxpayer's income for the year of sale is reduced by the excess of the depreciated value of the asset over its sale price, or increased by the excess of its sale price over its depreciated value. In calculating either allowance, regard is had to the deduction already allowed for repairs. (As regards mining concerns, see paragraph 18.)

##### *Deductions Prohibited.*

(f) Depreciation of goodwill, land, buildings or improvements; wastage or depreciation of a lease or loss occasioned by the expiration of a lease.

#### QUEENSLAND.

##### *Deductions.*

(vii) An allowance for depreciation by wear and tear of any building, machinery, implements, rolling stock, utensils and articles used for business purposes, also of any bore, well, dam or other improvement for the conservation of water, or for any fence (the amount charged by the taxpayer in his accounts being the measure of this allowance, subject to the Commissioner's approval), provided that where an allowance is made for repairs as at (vi) \* that allowance is to be taken into account in making the depreciation allowance under this provision.

(ix) An annual allowance for a sum paid for a lease or for cancellation of a lease, arrived at by dividing the sum paid by the number of years for which the lease has still to run from the date of purchase or cancellation. For the purchase of a lease granted by the Crown, deduction is allowed only if the purchase was made after June 30th. 1918. In all cases the deduction ceases if the taxpayer sells or cancels the lease.

(x) An annual allowance for a sum paid for purchase of goodwill of hotel, arrived at by dividing the sum paid by 5. The deduction ceases to be given if within five years the

taxpayer grants a lease of the property, or sells the goodwill.

##### *Deductions Prohibited.*

(d) Any wastage or depreciation of a lease or any loss occasioned by the expiration of any lease. (But see deduction (ix)).

#### SOUTH AUSTRALIA.

##### *Deductions.*

(iii) Expenditure for repairs of implements, &c., used, and of property occupied, for the purpose of producing income or from which income is derived or deemed to be derived.

(viii) In the case of a purchased annuity that part of the annuity which represents the purchase price. (This is treated by the Act as an exclusion from the definition of "income.")

(x) A "just and reasonable" percentage allowance for depreciation by wear and tear of machinery, implements, utensils, rolling-stock and articles (including beasts of burden and working beasts) used by the taxpayer for the purpose of producing income, such wear and tear not being of a kind that may be made good by repairs. The taxpayer may at his option obtain, instead of the percentage allowance for wear and tear, an allowance for such assets (excluding beasts) of 10 per cent. of their cost price, for each of the ten years beginning July 1st, 1924. If such assets (excluding beasts) are sold, the allowance is reduced by the amount received for their sale. In calculating either allowance, regard is had to the deduction already allowed for repairs.

##### *Deductions Prohibited.*

(d) Depreciation of any lease (except as shown in (vii) \* above).

#### TASMANIA.

##### *Deductions.*

(iii) Expenditure on repairs of business premises or of premises let to tenants.

(v) An allowance for depreciation through wear and tear of any machinery, implements, &c., used for business purposes, such depreciation not being of a kind that could be made good by repairs. The taxpayer's own depreciation fund, if any, is to be the measure of the allowance, subject to the Commissioner's approval. Any allowance granted under (i) † above is to be taken into consideration in calculating this allowance.

##### *Deductions Prohibited.*

(a) Depreciation of buildings.

#### VICTORIA.

##### *Deductions.*

(x) Repairs of business premises, and the supply, repair or alteration of any implements, utensils or machinery used for business purposes, up to the sum usually expended in any year for such purpose, or to such sum as the Commissioner thinks reasonable for repairs for the three years immediately preceding the year of assessment except such of those years for which a deduction has previously been allowed for repairs.

(xi) A percentage allowance for diminished value by wear and tear, during the year of income, of machinery, implements, utensils, rolling-stock and articles (including beasts of burden and working beasts) used by the taxpayer for the purpose of producing income, such wear and tear

\* (vi) The sums expended by the owner for repairs to or on that part of any property occupied by him or a tenant for the purpose of producing income, and for the repair of machinery, implements, utensils, rolling stock and articles used by such owner for the purpose of producing income

\* (vii) A proportion (obtained by dividing the sum so paid by the number of years of lease unexpired when the sum was paid) of any fine, premium, &c., paid for the lease, or for the renewal or transfer of the lease, of premises or machinery used to produce income.

† Expenditure on repairs or alteration of machinery, implements, &c., used for business purposes.



not being of a kind that may be made good by repairs. Where in any business income is set apart by way of a fund to cover the depreciation of such machinery, &c., the amount so set apart for the year of income is, subject to the Commissioner's approval, the sum to be deducted for depreciation. (The deduction under (x) is taken into account in computing this allowance.)

#### *Deductions Prohibited.*

(f) Depreciation of goodwill, land, buildings, leaseholds, furniture, fittings, live stock, rolling stock or stock-in-trade. (See, however, deduction (xi) above.)

#### WEST AUSTRALIA.

##### *Deductions.*

(iv) Repairs of business premises.

(v) Expenditure on repair or alteration of machinery, implements, utensils, and articles used for business purposes.

(vi) An allowance for depreciation by wear and tear of such machinery, &c. The amount carried in the year of income to depreciation fund is, subject to the Commissioner's approval, the measure of the allowance for depreciation.

##### *Deductions Prohibited.*

(a) Depreciation of buildings, goodwill, or stock-in-trade.

#### NEW ZEALAND.

##### *Deductions.*

(i) Repairs of premises, and the repair, alteration or supply of implements, utensils or machinery used in the production of income up to the sum usually expended in any year.

(ii) An allowance for depreciation of such implements, utensils or machinery, whether caused by fair wear and tear or obsolescence, provided such depreciation cannot be made good by repair; power is given to the Commissioner to revise the depreciation allowances made in past years and recover the additional tax, if the implements, utensils or machinery are sold at a price in excess of the written down value.

(iv) Interest to the extent the Commissioner is satisfied it is payable on capital employed in the production of the assessable income.

(v) Five per cent. per annum on the capital value of the taxpayer's interest in land in New Zealand used for the purposes of his business or for the purpose of deriving rent, royalties, or other profits therefrom (to be deducted from the income derived from the land).

##### *Deductions Prohibited.*

(h) Depreciation of leases.

#### (b) IN CERTAIN FOREIGN COUNTRIES.

*Supplied by Mr. H. D. LEATHER, F.C.A.*

##### FRANCE.

From inquiries made among specialists in accountancy and taxation in France, it would appear that the allowance often accepted without contestation in this country runs up to even 10 per cent. on plant and machinery. Of course, all depends on the nature of the machinery concerned, but, as long as there is not any exaggeration, the taxation inspectors are likely to accept an average of 10 per cent. Depreciation on buildings is allowed even up to 5 per cent. on the written down value.

##### GERMANY.

At the present time there are no fixed rates of deduction allowed for depreciation of machinery in Germany. Negotiations were entered into last year between the

trade association concerned and the German Government, but these were later on broken off without any tangible result having been achieved. At the present time, therefore, the question of depreciation allowed on machinery is one which has to be settled in every case by negotiations of the single firms with the taxation authorities competent for their district. When a machine, owing to some invention or improvement, has suddenly become obsolete, depreciation right up to the full value of the machinery might be allowed in such cases, even although the machine in question had only been in use for a couple of years.

From my experience in Germany, the Germans are very thorough in these matters, and as far as possible ascertain the original cost of every item of plant, and the probable life thereof, and then an allowance is made each year based on the probable cost of each item.

Depreciation is also allowed on Patent Rights, Buildings, Water and Drainage Plant at rates agreed with the Taxing Authorities.

##### BELGIUM.

All rates of depreciation in force, which are a matter of arrangement between the taxpayer and the local Tax Authorities, allow for the complete depreciation of the asset over the estimated life thereof. All rates of depreciation are calculated on the initial expenditure and not on the written down value.

Obsolescence will certainly be allowed, where the assets in question are disposed of, to the full extent of the loss incurred after deduction of the depreciation already allowed in previous years. Where the obsolescence assets are not disposed of, depreciation will be allowed annually until the asset is completely written off.

With regard to the question whether renewals and replacement are allowed on Buildings and Plant not depreciable for taxation purposes, this position does not arise as an allowance is made in respect of all buildings and plant which can be proved to suffer depreciation: the rate depending on the estimated life of the asset.

Exceptional depreciation will also be allowed (apart from the question of annual percentage) where it can be proved that the replacement price of any asset has definitely and permanently fallen below the price paid by the taxpayer in question. For example, where a machine bought for frs. 500,000—two years ago—can now be bought for frs. 300,000—the difference can be charged against revenue in one of the several instalments. In addition, if the life of a machine is estimated at eight years, an annual depreciation of 12.1 per cent. of frs. 300,000 would be allowed.

If the taxpayer employed in his accounts a higher rate of depreciation than that allowed by the Authorities, he has the right to the agreed allowance, even after the asset is completely depreciated in his books, until such time as the asset is duly depreciated at the rate allowed.

It would appear that capital expenditure undertaken for the purpose of maintaining the existing plant at the highest point of efficiency would be allowed in full and no analysis of "Maintenance of Works Accounts" would be called for, provided the concern was not suspected of fraud in its dealings with the Authorities.

Assets acquired before July 1st, 1926, may be revalued, having regard to the decline in value of the currency, and the percentage of depreciation may be based on the revised valuation.

The above remarks apply to all industries and undertakings and are based on instructions issued to the tax officers by the Minister of Finance.

## U.S.A.

The Treasury Department allowed a reasonable deduction for the exhaustion, wear and tear obsolescence of property used in trade or business.

With respect to physical property, the whole or any portion of which is clearly shown by a taxpayer as being affected by economic conditions resulting in its being abandoned at a future date prior to the end of its normal useful life so that depreciation deductions alone are insufficient to return the cost at the end of its economic term of usefulness, obsolescence may be allowed in accordance with the facts obtaining with respect to each item of property concerning which a claim for obsolescence is made. However, no such allowance may be claimed merely because in the opinion of the taxpayer the property may become obsolete at some later date. The allowance is confined to such portion of the property on which obsolescence is definitely shown to be sustained and cannot be held applicable to an entire property unless all portions thereof are affected by the conditions to which obsolescence is found to be due.

No particular method or standardised rates have been laid down by the Department for the computation of depreciation allowances. It has confined itself to the general statement that the capital sum to be replaced should be charged off over the useful life of the property either in equal annual instalments or in accordance with any other recognised trade practice, such as an apportionment of the capital sum over units of production. Useful life has been defined as the period of time over which an asset may be used for the purpose for which it was acquired. Whatever plan or method of apportionment is adopted must be reasonable and must have due regard to operating conditions during the taxable period. The reasonableness of any claim for depreciation is determined by conditions known to exist at the end of a period for which the return is made and the burden of proof rests upon the taxpayer to sustain the deduction taken by him.

To summarise briefly, the theory of depreciation adopted by the Treasury Department is that there should be a return of the investment by the end of the useful service life of the asset. The rates should be fixed accordingly.

## (c) IN CERTAIN FOREIGN COUNTRIES AND DOMINIONS.

*Supplied by Mr. P. D. LEAKE, F.C.A.*

The fact that for income tax purposes deductions must be allowed for the gradual exhaustion of mineral deposits is admitted in other countries, thus :—

The United States Government recognises that, in working a mine, mineral deposits are depleted and used up, and a charge for exhaustion is allowed in computing the profits of a mining concern for the purposes of income tax.

The United States Revenue Act of 1918 provides that in computing net income there shall be allowed as deductions in the case of mines, oil and gas wells, other natural deposits, and timber, a reasonable allowance for depletion. The methods of measuring this allowance are set out in Articles 201-233 inclusive, of a publication called "Treasury Department, United States Internal Revenue, Regulations 45, relating to the Income Tax and War Profits and Excess Profits Tax under the Revenue Act of 1918." This is published at Washington—Government Printing Office, 1919.

These Regulations provide, *inter alia*, that in determining the fair market value of mineral deposits as a basis for depreciation deductions, such value must be determined in the light of the conditions and circumstances known at the time. No rule, or method of determining the fair market value of mineral property is prescribed, but the Commissioner will lend due weight and consideration to any and all factors and evidence having a bearing on the market value. (Part 1, Article 206.)

The regulations also provide that in determining the quantity of mineral in a mine for purposes of depletion allowance, the property must be considered in the condition in which it was within thirty days after the date of discovery, but if—subsequently—additional recoverable mineral deposits have been discovered, or developed, which were not taken into account in estimating the number of units for purposes of depletion, or if it shall be discovered by working, developing, or exploration, that ground previously estimated to contain commercially recoverable mineral is barren, or contains only commercially unworkable mineral, a new estimate of the recoverable units of ores or minerals shall be made and, when made, shall thereafter constitute a basis for depletion. (Part 1, Article 208.)

With regard to the discovery of a mine or a natural deposit of mineral, it is provided that whether it be made by an owner of the land, or by a lessee, discovery shall be deemed to mean :—

(a) The *bona fide* discovery of a commercially valuable deposit of ore or mineral of a value materially in excess of the cost of discovery in natural exposure or by drilling or other exploration conducted above or below the ground ; or

(b) The development and proving of a mineral or ore deposit which has been abandoned or apparently worked out or sold, leased or otherwise disposed of by an owner or lessee prior to the development of a body of ore or mineral of sufficient size, quality and character to determine it, in connection with the physical and geological condition of its occurrence, to be a mineable deposit of ore or mineral having a value materially in excess of the cost, or of the proving and development, and every taxpayer claiming the value of a mineral deposit on the date of discovery or within thirty days thereafter for purposes of depletion, will be required to attach to his return a statement setting forth the conditions and circumstances of the discovery, and the size, character, and location of the deposit, together with the cost of discovery, its value and the precise method used in determining the value. (Part 1, Article 219.)

The New Zealand Government also recognises the necessity of allowing for expired capital outlay on mines, and exempts from taxation 50 per cent. of the dividends paid by gold and scheelite mining companies. The New Zealand Land and Income Tax Act, 1916, an Act to consolidate and amend the law relating to land tax and income tax, provides as under :—

(1) Notwithstanding anything to the contrary in this Act, if the Commissioner is satisfied that the sole or principal source of the income of a company, whether incorporated in New Zealand or elsewhere, is the business of gold mining or scheelite mining in New Zealand, the taxable income derived by that company in any year shall be deemed to be one-half of the total sum paid as dividends during that year to the shareholders of the company and the company shall be assessed and liable accordingly.

(2) The term "dividends" includes all sums distributed in any manner and under any name among



shareholders of a company on account of profits made by the company.

A method for ascertaining the capital value of minerals is outlined in the provisions of our own Finance (1909-10) Act, 1910. Sect. 20 of this Act imposes mineral rights duty on the rental value of all rights to work minerals.

Sect. 23 of the Act defines the term "capital value of minerals" as follows:—

(1) For the purposes of this part of this Act the total value of minerals means the amount which the fee simple of the minerals, if sold in the open market by a willing seller in their then condition, might be expected to realise, and the capital value of minerals means the total value, after allowing such deduction (if any) as the Commissioners may allow for any works executed or expenditure of a capital nature incurred *bona fide* by or on behalf of any person interested in the minerals for the purpose of bringing the minerals into working or where the minerals have been partly worked, such deduction as is, in the opinion of the Commissioners, proportionate to the amount of minerals which have not been worked.

(2) For the purposes of valuation under this part of this Act, all minerals shall be treated as a separate parcel of land; but where the minerals are not comprised in a mining lease or being worked, they shall be treated as having no value as minerals, unless the proprietor of the minerals, in his return furnished to the Commissioners, specifies the nature of the minerals and his estimate of their capital value.

Minerals which are comprised in a mining lease or are being worked shall be treated as a separate parcel of land, not only for the purposes of valuation, but also for the purposes of assessment of duty under this part of this Act.

## Incorporated Accountants' Students' Society of London.

### Syllabus of Lectures and Discussions.

1929.

- Oct. 8th. Lecture, "The Companies Act, 1929," by Mr. Harry Farrar, M.C., M.A., LL.B., Barrister-at-Law. *Chairman*: Mr. Richard A. Witty, Incorporated Accountant.
- Oct. 15th. Lecture, "Stock Exchange Transactions," by Mr. W. W. Bigg, A.C.A. *Chairman*: Sir Stephen Killik, Incorporated Accountant.
- Oct. 22nd. Lecture, "Statistical Administration of Industry," by Mr. A. G. H. Dent, F.S.S. *Chairman*: Mr. R. F. Silvester, Incorporated Accountant.
- Nov. 12th. Lecture, "The Changing Gold Standard," by Mr. O. R. Hobson, Editor-in-Chief *The Financial News*. *Chairman*: Sir James Martin, Incorporated Accountant.
- Nov. 19th. Lecture, "Executorship Law and Accountants," by Mr. W. H. Grainger, Chief Accountant, Prudential Assurance Company, Limited. *Chairman*: Mr. G. Roby Priddy (Vice-President of the Society).
- Nov. 26th. Lecture, "Some Post-War Economic Problems," by Mr. Philip Vos, M.A., Barrister-at-Law. *Chairman*: Mr. M. J. Faulks, M.A. (President of the Society).

All the meetings are to be held at 6 p.m. at Incorporated Accountants' Hall, Victoria Embankment, London, W.C.

## LECTURES AND TRANSACTIONS OF THE

### Incorporated Accountants' Students' Society of London for the year 1928.

The interchange of thoughts between financial editors and Incorporated Accountants which was evidenced in the previous volume of "Transactions," is again to the fore in this the thirty-third volume. The book includes papers by Mr. C. J. Mills, of *The Times*, on "Some Views on Auditors' Certificates," and by Mr. A. S. Wade, of *The Evening Standard*, on "Press Criticisms of Prospectuses." It is all to the good that accountants should know what other people think of their work, and needless to say these two Lecturers do not hesitate to give expression to their views where they are of opinion that auditors have been found wanting in any degree in the discharge of their duties. Mr. Mills, in deprecating the use of vague language in auditors' certificates, says that as a journalist he has perhaps read more of the opinions of investors than those who are professionally engaged in the management and direction of companies. As a result he has a good deal of sympathy with those investors who, when tragedies in the company world occur, write letters protesting against the inadequacy of auditors' certificates. The author meets in advance the argument that auditors cannot be expected to be more precise in the language they employ in their certificates because of the danger of doing damage to the company and the shareholders' interests. In the judgment of Mr. Mills that view can easily be exaggerated. In dealing with the valuation of balance-sheet items he suggests that the item of goodwill—a notoriously contentious subject—has no real place in a balance-sheet. He would prefer to see this item abolished altogether from the balance-sheet because its value and its variability is more accurately expressed in the profit and loss account.

Mr. Wade deals more particularly with the certificates which appear in prospectuses, and puts forward the plea that in many cases qualifications of certified profits, although set out in plain language, do, as a matter of fact, frequently mislead the investing public. His experience suggests that the general public think of a profit only in the sense of what is left for the purposes of reserve, dividends and carry forward. Accountants might wish to say in reply that general rules are impossible in relation to certificates and that a complete knowledge of all the facts of a particular case is essential before that certificate can be criticised. That answer would be justified, but nevertheless it is helpful to Incorporated Accountants to know the impression created upon the minds of financial editors purely as the result of reading the many certificates which come under their notice.

Mr. Archibald Crawford, K.C., Director of the Economic League, contributes a paper on "The Truth about Industry." He illustrates the four main factors in industry, namely, capital, invention, management and labour, and examines the history and progress of the industrial world during the past century. He attributes that progress—which has been very much greater than is sometimes realised—to the combination of these four factors which are indissolubly linked together. There is nothing political

in Mr. Crawford's views, but as an economist he says that individual enterprise must be the mainspring of progress in industry.

Three writers deal with the new Company Law Legislation, viz, Mr. C. A. Bennett, K.C., on "Some Proposed Amendments to the Companies Acts," Mr. Robert Ashworth, F.C.A., F.S.A.A., on "Company Accounts and Balance Sheets," and Mr. R. R. Coomber, B.Sc. (Econ.), Incorporated Accountant, on "The Auditor and the New Companies Legislation." Mr. Bennett explains some of the more important recommendations of the Company Law Committee which have now found their way to the Statute Book, and the report of the ensuing discussion shows how closely the students have been watching the developments in the way of Company Law amendment. Mr. Ashworth's paper was delivered before a joint meeting of the London Students' Society and the Chartered Institute of Secretaries. He deals in his usual drastic fashion with the presentation of accounts and is clearly of opinion that even the requirements of the new Act in relation to the balance-sheets and profit and loss accounts of companies do not go as far as might have been wished, but at the same time expresses appreciation of the further safeguards which have now been embodied in the law. Mr. Coomber deals more particularly with those parts of the new legislation which specifically concern the auditor. He reviews the new enactments in relation to redeemable preference shares, prospectuses, shares at a discount, provisions as to accounts and subsidiary companies, and then discusses the vexed question of the auditor as an officer.

"The Accountant as an Administrator" is the title of a contribution by Mr. Thomas Haworth, Incorporated Accountant. He directs the attention of his readers to some of the problems which any accountant taking up service in an industrial undertaking is likely to meet sooner or later. He develops a theme for taking a wider view of the duties of the accounting officer, because he feels strongly that unless there is co-ordination in the keeping of records there is bound to be duplication and wasted effort. He also stresses the passivity of the accounting officer's functions and the importance of developing the personal aspect of accounts.

The volume also includes the following papers:—"Goodwill," by Mr. A. F. Saunders, F.C.A., Incorporated Accountant; "Income Tax Assessments based on Current Legislation," by Mr. W. F. Edwards, Incorporated Accountant; "Investigation of the Affairs of a Joint Stock Company," by Mr. Frederick Davey, Incorporated Accountant; "Income Tax: Departures from the Normal Bases of Assessment," by Mr. H. A. R. J. Wilson, A.C.A., A.S.A.A., and "The Law of Arbitrations and Awards," by Mr. W. Summerfield, M.A., B.C.L., LL.B., Barrister-at-Law.

The Committee's Report for the year 1928 gives clear evidence of the vitality of the London Students' Society, which is playing an increasingly important part year by year in the wide and catholic training which is so essential to the accountants of the immediate future.

## District Societies of Incorporated Accountants.

### BIRMINGHAM AND MIDLAND.

#### Annual Report.

The following are extracts from the thirty-eighth annual report of the Society:—

The Council desire to place on record an expression of thanks to the various lecturers for their services, and to the Birmingham Chartered Accountants' Students' Society, the Birmingham and District Branch of the Chartered Institute of Secretaries, and the Institute of Cost and Works Accountants, for their invitations to lectures and co-operation.

During the year the following lectures were held at the Society's room:—

#### 1928. October 18th.

"Procedure of Creditors' Meetings and Reporting to Clients thereon," by Mr. A. P. Bardell, A.S.A.A.

Mr. Bardell dealt with the actual procedure followed at creditors' meetings, and gave a lucid explanation of the accountant's duties.

#### November 15th.

"The Practical Side of the Verification of Bar Takings in Hotel and Club Accounts," by Mr. T. Harold Platts, F.S.A.A.

Mr. Platts explained the necessity for accurate checks on bar stocks, and also showed how such checks can be effected.

#### November 20th.

A social evening at Tony's Ballroom. Arranged by the Students' Section.

A private lounge was reserved for members, and the function was supported by over forty members, chiefly students.

#### December 7th.

"The Accounts of Municipal Trading Undertakings," by Mr. Arthur Collins, F.S.A.A.

This lecture was by invitation of the Birmingham Chartered Accountants Students' Society.

#### 1929. January 30th.

"Mock Meeting of Shareholders."

The Birmingham and District Branch of the Chartered Institute of Secretaries were invited to attend this meeting. The meeting was well supported, and provided a humorous and instructive diversion.

#### February 6th.

"Important Points in connection with Absorptions, Amalgamations and Holding Companies," by Mr. E. Miles Taylor, F.C.A.

This lecture was by invitation of the Birmingham and District Branch of the Chartered Institute of Secretaries. Mr. Miles Taylor gave a clear explanation of this intricate branch of accountancy.

#### March 8th.

"The New Companies Act," by Professor F. Tillyard.

This lecture was by invitation of the Institute of Cost and Works Accountants.

During the past year, important movements in the history of the Parent Society have taken place. The District Societies Scheme came into force on January 1st,



1929, whereby qualified members automatically became members of a District Society.

In June and July, 1928, extraordinary general meetings of the members of the Parent Society passed resolutions increasing the subscription payable to the head office of the Society. All qualified Incorporated Accountants, as from January 1st, 1929, automatically became members of the District Society in their own area, which is financed by a grant from the Parent Society's funds, without additional subscription from the members to the District Society. The District Societies will continue to maintain Student Sections, the members of which will pay their subscriptions locally as hitherto.

The attention of students is called to Bye-law 24, which reads as follows:—

"Subject as hereinafter in this Bye-law mentioned a candidate in England, Wales, Scotland or Ireland, within three months after passing the Preliminary Examination or after obtaining exemption from the Preliminary Examination, under the provisions of Bye-law 5, shall become a member of the Students' Section of a Branch or District Society of the Society, or a member of an Incorporated Accountants' Students' Society. The Examination and Membership Committee of the Council may in exceptional circumstances exempt a candidate from the operation of this Bye-law. A candidate submitting an application to sit for the Intermediate Examination shall forward with such application a certificate by the Secretary of such Branch, District or Students' Society of compliance with this Bye-law."

#### PRIZES.

Prizes in the form of books approved by the President will be given by the District Society to Student members taking Honours at the Examinations of the Society, provided that the candidate was actually a member of the District Society at the date of the Examination. The value of the books will be as follows:—  
Final Examination: First place, books to the value of £3 3s.; all other Honours, books to the value of £1 1s.  
Intermediate Examination: First place, books to the value of £2 2s.; all other Honours, books to the value of £1 1s.

#### LEICESTER.

The following are extracts from the report of the Committee for the year ended April 30th last:—

The proposal to form the Leicester Society was approved by the Council in London on May 22nd, 1928, and the Committee wish to place on record the very friendly spirit in which this decision was accepted by the members at Nottingham and Derby. The Committee gratefully acknowledge the receipt of £75 from the Nottingham, Derby and Lincoln Society as Leicester's share of the joint funds, and also the grant from the Parent Society.

On March 12th a luncheon for qualified members was held at the Oriental Hall, at which an address was given by Alderman H. W. Hallam, J.P., on "Town Planning."

The attendance at lectures averaged 33, and 30 members were present at the luncheon.

Further luncheons have been arranged for the coming session, due notice of which will be given.

#### EXAMINATIONS.

The Committee extend congratulations to the following members who were successful at the Society's examinations held in May and November, 1928.

Final Examination: P. A. H. Bromwich, K. E. Chambers, C. D. Lincoln, H. Rivington, W. Smith, R. Sutcliffe, C. B. Watson, C. Walker.

Intermediate Examination: A. L. Allan, W. S. Dalby, G. W. H. Glover, H. H. Pollard, C. H. Pettitt, W. W. Wood, E. A. Woods.

#### LIBRARY.

Members have not availed themselves of the use of the Library to a large extent, and the attention of the younger members is again drawn to this branch of the Society's work.

The Society was represented by the President and Secretary at the opening of Incorporated Accountants' Hall on February 19th, 1929, and the Secretary has also attended Conferences of representatives of District Societies.

#### SUBSCRIPTIONS.

The attention of students is called to the revised scale of subscriptions now payable, i.e.:

Entrance fee for new members .. ..	5/-
Annual subscription .. ..	7/6

This scale is now uniform throughout the country and was adopted by your Committee on July 26th, 1929.

Suggestions affecting any part of the Society's work will be welcomed by the Committee and should be addressed to the Hon. Secretary.

#### NOTTINGHAM, DERBY AND LINCOLN.

##### 1929. Syllabus of Lectures and Meetings.

- Oct. 8th. "Back Duty in Income Tax," by Mr. C. G. Woodfield (late H.M. Inspector of Taxes).
- Oct. 24th. "New Companies Act," by Mr. W. Summerfield, M.A., LL.B., B.C.L. (Barrister-at-Law).
- Nov. 22nd. "Bankruptcy," by Mr. O. K. Metcalfe, M.A. (Hons.), LL.M. (Hons.), (Barrister-at-Law).
- Nov. 29th. Annual Dinner, Victoria Station Hotel, Nottingham.
- 1930.
- Jan. 22nd. "Executorship Law and Accounts," by Mr. H. A. R. J. Wilson, A.C.A., A.S.A.A.
- Feb. 5th. "Economics," by Mr. A. L. Boddington, F.S.S.
- Mar. 11th. "Costing," by Mr. E. Miles Taylor, F.C.A., F.S.A.A.
- Mar. 27th. "Executors and Trustees," by Mr. A. Cousin, Solicitor.

To be notified: Debate with the Sheffield District Society of Incorporated Accountants.

The lectures are held at the Reform Club, Victoria Street, Nottingham.

#### SOUTH WALES AND MONMOUTHSHIRE.

##### Annual Report.

The following are extracts from the thirty-fourth annual report for the year ended March 31st, 1929:—

#### OBITUARY.

It is with the deepest regret that the District Society has to record the death of three of its past officials—Mr. Charles Drinkwater, who will be remembered as the first Secretary of the District Society; Colonel J. J. David, President in 1911 and 1919-20; and Mr. Richard Leyshon,

President in 1903 and again in 1920-21. All these three gentlemen had devoted a great deal of time and energy to the services of their fellow members in South Wales, and their loss will be keenly felt. In particular, Mr. Richard Leyshon, in addition to being a Past President of the District Society, was a member of the Parent Council and Vice-President of the Benevolent Fund, to which he was a generous contributor, whilst the students were indebted to him for the prizes in the initial stages of the Prize Essay Scheme.

#### ANNUAL DINNER.

The annual dinner was held at the Whitehall Rooms, Park Hotel, Cardiff, on Friday, April 19th.

Mr. Edward Mills, President of the District Society, was in the chair, and the District Society was particularly gratified to number amongst its guests the Lord Mayor and Lady Mayoress of Cardiff, Mayor and Mayoress of Newport, Mayor of Merthyr, his Honour Judge L. C. Thomas, the President and the Vice-President of the Parent Society, the Parliamentary Secretary, several members of the Parent Council and representatives of the Institute of Chartered Accountants, Chartered Secretaries, Incorporated Law Societies, Chambers of Commerce, Chambers of Trade, and our own District Societies of Manchester, West of England, Swansea, and South West Wales.

#### LOCAL DISTINCTIONS.

Mr. R. Wilson Bartlett, a Past President of the District Society, was elected during the current year to fill a vacancy which had occurred on the Council of the Parent Society. In addition to this distinction, Mr. Bartlett has been elected a Justice of the Peace, and accountants in South Wales join in congratulating him on the honour which he has brought to the profession.

Mr. A. E. Pugh, by his election to the Newport Town Council, has added yet another distinction to the District Society, as we now have one of the oldest members on the Cardiff City Council in Alderman C. F. Sanders, and the youngest member of the Newport Town Council in Mr. Pugh.

Mr. W. J. Pallot, who was elected to replace Mr. Leyshon on the Cardiff Chamber of Commerce, has also been elected as auditor to that body.

Both in Cardiff and Newport Incorporated Accountants take a very active and prominent part in the work of this important body, and that their services are appreciated is evidenced by the offices which they hold.

#### YORKSHIRE.

The following are extracts from the thirty-fifth annual report for the year ending September 1st, 1929:—

MEMBERSHIP.				
Fellows	..	..	..	58
Associates	..	..	..	179
Students	..	..	..	150
Total	..	..	..	396

Seventy-three new members have joined during the year.

Fourteen members have resigned their membership owing to removal elsewhere, or retirement from practice.

#### LIBRARY.

As resolved at the annual meeting, held September 28th, 1928, the books and library were transferred to the offices of the secretary, at 29, Cookridge Street, Leeds. A new

catalogue has been issued to the members during the past year.

#### EXAMINATIONS.

The following members were successful at the November, 1928, and May, 1929, examinations of the Society, and our congratulations are given to the undermentioned:—

Final: Miss E. W. Bailey, Leeds; A. Cliffe, Huddersfield; E. Craven, Leeds; F. Deighton, Leeds; G. H. Grayson, Beverley; W. W. Wright, Wakefield.

Intermediate: R. Appleyard, Leeds; F. C. Beaumont, Wakefield; F. Chappell, Wakefield; C. Colbeck, Leeds; C. A. L. Doyle, Leeds; E. A. Elverson, Leeds; E. E. Firth, Leeds; F. L. Gardiner, Scarborough; H. V. Gleave, Leeds; G. Goodall, Otley; J. J. Greeley, Otley; E. A. Greenwood, Dewsbury; D. McMichael, Leeds; J. C. Newby, Leeds; W. C. Padgett, Wakefield; G. F. Sayers, Leeds; O. J. Shaw, York; E. D. Stevenson, Leeds; J. Tetley, Leeds; W. L. Triffitt, Leeds.

#### BYE-LAW 24.

The attention of candidates is called to the following bye-law of the Council (will practising members bring same before the notice of their staff who are preparing for their examinations):—

"Subject as hereinafter in this bye-law mentioned a candidate in England, Wales, Scotland, or Ireland, within three months after passing the Preliminary examination or after obtaining exemption from the Preliminary examination, under the provisions of Bye-law 5, shall become a member of the Students' Section of a Branch or District Society of the Society, or a member of an Incorporated Accountants' Students' Society. The Examination and Membership Committee of the Council may in exceptional circumstances exempt a candidate from the operation of this bye-law. A candidate submitting an application to sit for the Intermediate examination shall forward with such application a certificate by the Secretary of such Branch, District, or Students' Society of compliance with this Bye-law."

#### APPOINTMENTS REGISTER.

Student and Associate members requiring appointments should apply to the Secretary, who keeps a Register of Vacancies open, situations required, and names of students requiring articles of clerkship with local members.

Will members in practice apply when they have vacancies on their staff.

#### DINNER.

There was a large and representative gathering at the dinner, held on January 18th, 1929, at the Queen's Hotel, Leeds. Mr. Fredk. C. Crosland, A.S.A.A., the President of the Yorkshire District Society of Incorporated Accountants, was in the chair, supported by many of the leading Incorporated Accountants of the City.

#### OBITUARY.

With sincere regret we report the death of Mr. William Claridge, M.A., F.S.A.A., a Past President of the Society of Incorporated Accountants and Auditors, which took place at his home, "Ashville," Thackley Road, Bradford, on July 12th, 1929. He was a Vice-President and Honorary Life Member of the Yorkshire District Society of Incorporated Accountants; founder, and for many years President, of the Bradford and District Society of Incorporated Accountants. Mr. Claridge met with a serious accident from which he never really recovered, although with courage, cheerfulness, and his strong will power, he endeavoured to discharge all his duties to the end.



## COMMONWEALTH INSTITUTE OF ACCOUNTANTS.

### Annual Report.

The following are extracts from the Report :—

The General Council has pleasure in presenting its sixth Annual Report for the year ended December 31st, 1928.

The following officers were appointed for 1928 :—  
President, Mr. Arthur J. Morris, F.I.C.A.; Vice-Presidents, Mr. H. H. Cummins, F.I.C.A., and Mr. S. J. McGibbon, F.I.C.A.; Hon. Treasurer, Mr. R. H. Shackell, F.I.C.A.  
Executive Committee: The President, Vice-Presidents, Mr. H. P. Ogilvie, F.I.C.A., Mr. L. A. Cleveland, F.I.C.A., and the Honorary Treasurer. Board of Examiners: Mr. R. H. Shackell, F.I.C.A. (Chairman), Mr. L. A. Cleveland, F.I.C.A., Mr. H. P. Ogilvie, F.I.C.A., Mr. A. M. Hislop, F.I.C.A., Mr. F. W. Spry, F.I.C.A.  
Applications Committee: Mr. H. P. Ogilvie, F.I.C.A. (Chairman), Mr. R. H. Shackell, F.I.C.A., Mr. L. A. Cleveland, F.I.C.A.  
"Journal" Committee: Mr. G. F. Offner, F.I.C.A. (Chairman), Mr. W. T. MacBride, F.I.C.A., Mr. S. J. McGibbon, F.I.C.A., Mr. A. L. Slade, F.I.C.A., Mr. H. H. Cummins, F.I.C.A., Mr. R. H. Shackell, F.I.C.A.  
Parliamentary and Laws Committee: Mr. L. A. Cleveland, F.I.C.A. (Chairman), Mr. H. H. Cummins, F.I.C.A., Mr. R. D. Bogan, F.I.C.A., Mr. A. L. Slade, F.I.C.A., Mr. G. F. Offner, F.I.C.A., Mr. S. J. McGibbon, F.I.C.A.  
Finance Committee: Mr. R. H. Shackell, F.I.C.A. (Hon. Treasurer and Chairman), Mr. H. P. Ogilvie, F.I.C.A., Mr. L. A. Cleveland, F.I.C.A.

### MEMBERSHIP.

During the year 138 new members were admitted, whilst 64 were advanced to higher status. The numbers in the various States were as follows :—

	Admissions.	Advancements.
Victoria .. ..	63	31
New South Wales ..	41	21
Queensland .. ..	3	5
South Australia ..	5	1
Western Australia ..	19	1
Tasmania .. ..	5	4
Outside Australia ..	2	1

The total membership of the Institute is now 3,224.

### ROYAL CHARTER.

As already advised to members, a Royal Charter was granted in June last.

It will be remembered that the Council of the Institute, whilst not opposed to the granting of a Royal Charter for the practising accountants in Australia as a whole, were averse from the grant being made to any particular Institute.

As a result of negotiations, your Council obtained representation on the Council of the Institute of Chartered Accountants (Australia), and also safeguarded, as far as possible, the rights of the members of this Institute, as set out in the circular issued in July, 1928. It therefore withdrew its opposition, and the honour to the profession which has been eagerly sought for many years at last became a reality.

### FUTURE OF THE INSTITUTE.

The various State Councils have been considering the effect of the granting of a Charter on the future of this Institute, and are submitting recommendations to the General Council for deliberation at its meeting to be held in April next. Recommendations will be submitted by the Council to the members in due course, and the Council feels sure that the proposals will be such that the prestige and progress of the Institute will be maintained.

### SUSPENSION OR FORFEITURE OF MEMBERSHIP.

The Council had occasion during the year to consult the solicitors regarding a complaint against a member, and, in doing so, requested the solicitors to draw up a plan of procedure for the guidance of Divisional Councils in dealing with such cases.

### "COMMONWEALTH JOURNAL OF ACCOUNTANCY."

The *Journal* maintains its high standard as an accountancy publication, and your Council again invites members to supply Publicity Officers in the various States with items of interest to the profession for publication.

### BYE-LAWS.

The following amendments were made to the bye-laws :—

- (1) Where nominations are called for the office of Councillors and the requisite number is not nominated, provision is made for the Chairman to call for and receive nominations at the annual meeting.
- (2) In order that the Registrar may be enabled to check the names of the members voting without knowing how they vote, two envelopes are now sent to members. The envelopes, on the flaps of which appear the signatures of the voters, are opened first, and when all these envelopes are checked, the other envelopes in which the voting papers are enclosed are opened by the scrutineers.

## THE EVOLUTION OF THE SCIENCE OF BOOK-KEEPING.

A lantern lecture was delivered last month, under the auspices of the Institute of Book-Keepers, Limited, by Mr. H. J. Eldridge, F.S.A.A., at Gresham College, London, E.C.2, kindly lent for the occasion by the Gresham Committee.

Reference was made to account-keeping on tablets of clay, and illustrations of Sumerian tablets dating 2300 years B.C. were shown. It was explained that the deciphering of Cuneiform writing such as shown in these tablets and in inscriptions cut upon stone was begun by Grotefend in 1802, thus bringing back records of civilisations existing, perhaps, 9,000 years ago. Taxes were levied by Solon, the great Athenian law-giver (638 B.C. to 558 B.C.), so there must have been account-keeping then in Greece.

Later the writings in Egypt and India were recorded on papyrus, which was used until the discovery of parchment about 190 B.C.

Account-keeping in the twelfth and thirteenth centuries must have been very trying, as there were reckonings in marks of 13s. 4d. each, in half marks and quarter marks. Arabic figures did not come into this country until the middle of the fourteenth century. An illustration was given of a Pipe Roll of the fifth year of Henry II (1159). In connection therewith it was pointed out that the English language was in course of formation between 1209 and 1500. Law pleadings were made in English instead of in the French language by order of Edward III in 1362. This was about the time of Sir Richard Whittington, who was Lord Mayor of London in 1397, 1406 and 1419. An illustration of tallies of the reign of Henry III (1216-1272) was shown. Tallies were in use before the time of the setting up of the Exchequer and the beginning of the Pipe Rolls. Tradition says that the first financial office of the King's was called "At the Tallies."

The science of book-keeping commenced when the principles of double-entry were introduced. The Genoese Communal Stewards Cartularies of the year 1340 is regarded by some as the oldest document in existence based on the principles of double-entry. The books of the distinguished Italian family, the Medici, were referred to, and next illustrations were given of English account books (1415-1441) belonging to the Drapers' Company. After reference to a manuscript by Benedetto Cotrugli,

portraits were shown of Frater Luca Pacioli, who, in 1494, produced the first work on the principles of double-entry book-keeping. A most interesting photograph was shown, only obtained a few days previously, of a tablet dedicated to the memory of Pacioli placed, and still existing, under the Loggiato delle Laudi, facing the Municipal House of San Sepolero. This was obtained through the courtesy of the Prefetto of Arezzo and the kindness of His Excellency the Italian Ambassador in London. This is undoubtedly the first reproduction of this tablet to be seen in England, and possibly the first outside Italy.

The first German work was by Schreiber (1518). Then followed works by Tagliente (1525), Gottlieb (1531), Manzoni (1540), Girolamo Cardano (1539) and Ympyn (1543). The first English work was by Hugh Oldcastle, (1543). Then followed works by Peele (1553), Menner (1556), Weddington (1567), Savonne (1567), Mellis (1588), Salvador (1590), Goessens (1594), Simon Stevin (1605), Waninghen (1607), Dafforne (1636), Mainardi (1637), Collins (1652), Kock (1658), Montague (1675), Charles Snell (1709), Richard Hayes (1731), John Mair (1736) and Benjamin Booth (1789). It is interesting to note that the method of placing ticks to check postings by auditors was fully described by Mellis in 1588, that vowel-indexing was explained by Dafforne in 1636, and that women book-keepers were referred to by Montague in 1675. The chief points in these books were described.

Illustrations were given of Mr. Edward T. Jones's book published in 1796, reference being made in later editions of this authority to the sub-divisions of the journal into many other subsidiary books.

After a mention of Hamilton and Balls book-keeping, first published in 1866, reference was made to recognised authorities, including Prof. L. R. Dicksee, Mr. L. Cuthbert Cropper, Mr. Roger N. Carter, Messrs. Spicer & Pegler, Mr. F. W. Pixley, and many others who have supplied works on book-keeping and accountancy from the point of view of almost every industry and in almost every path of commerce.

In order to emphasise the importance with which book-keeping is regarded by the leading educational authorities all over the world, slides were put on the screen showing examinees at book-keeping examinations in London, many provincial cities and towns, British Guiana and Jamaica. Then came slides of handwritten bound books and hand-written moveable leaf ledgers.

It was stated that a machine to calculate and print was devised by Pascal in 1850. A calculating machine was invented by Babbage in 1812. The Government took up the invention in 1823, a portion of Babbage's machine being still in the South Kensington Science Museum. Machine accountancy is the method adopted to a considerable extent by all large stores, commercial houses and banks. As an illustration of machine accountancy, slides were shown made from photographs taken at the Westminster Bank. There were specimens of a Waste Sheet, Check Ledger, Customers' Ledger and the loose leaves which are taking the place of pass books, also a photograph of the training school for operators of book-keeping machines at that bank.

In conclusion, it was stated that specimens of account-keeping 4,000 years ago, when books were unknown, had been seen, and also the very latest methods of account-keeping. Like account-keepers of 4,000 years ago, we again work without books, but the account-keeping machine takes the place of the stylus and the cards and carbon copies have superseded the cumbersome clay tablets.

## Correspondence.

### TRANSPOSITION OF FIGURES.

To the Editors *Incorporated Accountants' Journal*.

Sirs,—I read with interest the letter in this month's *Journal* from your correspondent A. N. H., and beg to offer the following algebraical solution:—

Let  $x$ =tens' digit, and  $y$ =units' digit, then the difference between any original number and the number obtained by reversing the digits will be represented thus:—

$$(10x+y)-(10y+x)=10x+y-10y-x=9(x-y)$$

which shows that the difference is always divisible by 9.

Furthermore, the ninth part of the difference between the two numbers equals the difference between the two digits, which fact can be proved by test, e.g.,

$$64-46=18; \text{ and } 18 \div 9 = 2 = 6-4.$$

I cannot recall definitely any actual experience of my own; nevertheless, I believe it is a good way of discovering this class of error.

Yours truly,

R. F. EMMERSON.

Bristol,

September, 1929.

To the Editors *Incorporated Accountants' Journal*.

Sirs,—In reply to your correspondent A. N. H. in this month's *Journal*, may I point out that any number reversed and subtracted in the manner shown by him will always be divisible by 9 unless the number is the same when reversed.

This can be proved algebraically as follows:—

Let  $x$  equal the number of units and  $y$  equal the number of tens. Then the original number is  $10y+x$ .

Reversed, it is  $7+10x$ . The difference is 9 into  $y$  minus  $x$ .

This proof can be extended to a number containing any number of digits.

I enclose my card.

I am,

Yours, &c.,

West Hampstead,

September, 1929.

JAY WICK.

[Several letters have been received on this subject, from which the above have been selected for publication.—Eds., *I.A.A.J.*]

### Changes and Removals.

Messrs. Brown, Phillips & Stewart have removed to 1A, Penang Street, Penang, Straits Settlements.

Messrs. Cooper & Kenny, Incorporated Accountants, 34, Dame Street, Dublin, announce that as from September 16th, 1929, Mr. John Horace Barton has resigned from the firm, which will be carried on under the same title and at the same address by the remaining partners, William Houghton Baskin, Arthur Herbert Walkey, and Arthur Jewell Walkey. Mr. Barton has commenced public practice in his own name at Anglesea Buildings, 13, Anglesea Street, Dublin.



Messrs. Basil L. Denton & Co., Chartered Accountants, have removed their London office from 141, Fenchurch Street, to Marlow House, Lloyd's Avenue, London, E.C.3.

Mr. C. S. Garraway, Incorporated Accountant, is now in practice on his own account at 19, North Church Street, Sheffield.

Messrs. Goldby, Panchaud & Webber, Johannesburg, have taken into partnership Mr. A. J. T. Goldby, Incorporated Accountant, and Mr. J. C. Macintosh, Incorporated Accountant. There will be no change in the name of the firm.

Mr. P. J. Goodchild, Incorporated Accountant, has removed to 19, London Wall, London, E.C.2.

Mr. D. H. Jeboult has removed to 7 and 8, Idol Lane, Eastcheap, London, E.C.3.

Messrs. Percy Mason & Co., 64, Gresham Street, London, E.C.2, have admitted into partnership Mr. W. J. Robins, Incorporated Accountant, Mr. Leslie Webber, A.C.A., and Mr. Clifford Mourant, A.C.A. The firm name will remain unchanged.

Messrs. W. H. Payne & Co., Incorporated Accountants, of 8 and 9, Martin Lane, Cannon Street, London, E.C.4, regret to announce that Mr. W. S. Warren, owing to ill-health, has retired from the partnership as from August 31st, 1929. The practice will be continued by the remaining partners, under the same style as heretofore.

Mr. Ivor H. Slater, Incorporated Accountant, has been taken into partnership by Mr. E. R. Bradley, Incorporated Accountant. The practice will be continued at 584, Christchurch Road, Boscombe, Bournemouth, under the firm name E. R. Bradley.

Messrs. W. T. Walton & Son, Incorporated Accountants, announce that they have removed their London office from 141, Fenchurch Street, to Marlow House, Lloyd's Avenue, London, E.C.3.

Mr. F. J. Woodall, Incorporated Accountant, has removed to 37-38, Golden Square, Piccadilly Circus, London, W.1, and also opened a branch office at 3, The Wash, Hertford.

## Scottish Notes.

(FROM OUR CORRESPONDENT.)

### New York Congress.

Scotland was represented at the International Congress on Accounting which concluded on the 14th ult. In a Paper on "Cost Accounting," Mr. W. Annan, C.A., Edinburgh, pointed out that cost accounts were not a product of the Great War, but must have been used in some crude form ever since mankind commenced to trade and use money, but he quoted Lord Weir's remark that "until comparatively recently 'intelligent costing' on both sides of the Atlantic was conspicuous by its absence." English enterprises had once been described as "with tradition-rotten methods and insufficient costing system, each

jealously guarding as knowledge beyond price the details of its inadequate operations." But the necessity for a proper system of costing was now recognised, and accountants ought not to hesitate to suggest its introduction or improvements in an existing scheme any more than the physician, on observing symptoms of illness other than those he had been called in to treat, would hesitate to point out the trouble and prescribe for it. Not long ago auditors were looked on by business men as a necessary evil, but they were now recognised at least of some help. A Paper on "Municipal Budgets in Scotland," was contributed *in absentia* by Mr. A. C. McMillan, C.A., Glasgow, in the course of which he surveyed all the manifold activities of a Scottish county, burgh, or parish authority and claimed that accuracy of detail was a feature of all their estimates. While "guess and calculate" was an American colloquialism, municipal budgeting in Scotland comprised much more calculating than guessing.

### An Auditor Criticised.

The auditor of the burgh of Forres, an Inverness Chartered Accountant, having commented in his certificate that money recovered by the Town Clerk should be paid over to the Town Chamberlain from time to time and not retained until the end of the year, the Town Clerk took occasion to enter a strong protest against the auditor's comments. The Town Clerk said he was employed by the Council to collect certain casualties payable to the Council. In only six cases these exceeded £5 and the whole collection covered a period of less than six months. When the work was finished the money was paid over to the Town Chamberlain. He held it was ridiculous to expect that every time he received a similar payment he should send it to the Chamberlain. This was the second year in succession the auditor had seen fit to make some comment on the Town Clerk's office. He held that in both cases the matters raised were frivolous and outside the scope of the auditor's duties. The Provost stated that the Town Clerk has their utmost confidence, and the Council signified their agreement with this view by their hearty applause.

### Defaulting Officials.

There have been several cases recently of defalcations by officials of local authorities in Scotland. Despite the most vigorous supervision or audit such cases inevitably emerge from time to time. In Greenock a temporary assistant to the Clerk to the parish council by a most ingenious system of fraud and forgery managed to obtain no fewer than 87 payments of small sums in names of persons on the rolls of the unemployed of the parish within fourteen months, amounting in all to only £110. These unemployed poor persons, however, did not suffer, as the sums for which the parish council was defrauded, were really due and were paid to the recipients by the Labour Exchange.

The worst case, however, occurred in Paisley, where a young clerk, 25 years of age, in the Town Chamberlain's office, was convicted of embezzling over £11,000 in less than a year. In this case the procedure was extremely simple and consisted merely of not lodging in bank the whole of the moneys entrusted to him for that purpose. The sums omitted to be lodged it is said ranged from £100 up to £1,000, and the whole of the money was lost in betting, one bet being reported in Court to have been as much as £3,000 on one horse. The marvel is how such a course, involving such sums could have gone on for so long without discovery. We do not know if the Paisley Corporation has an internal check or not, but the whole position would appear to require consideration. The Judge, Lord Sands, made some caustic remarks on the bookmakers who could take from a young man of 25, living in a small two-apartment house, such sums by way of bets. Although only 25 this precocious young man was a married man with a wife and two children.

## Notes on Legal Cases.

[The abbreviations at the end of each of the cases refer to the following law reports, where full reports of the case may be found. The Law Reports and other reports are cited with the year and the Division, e.g. (1925) 2 K.B. :—

T.L.R., *Times Law Reports*; *The Times*, *The Times Newspaper*; L.J., *Law Journal*; L.J.N., *Law Journal Newspaper*; L.T., *Law Times*; L.T.N., *Law Times Newspaper*; S.J., *Solicitors' Journal*; W.N., *Weekly Notes*; S.C., *Sessions Cases (Scotland)*; S.L.T., *Scottish Law Times*; I.L.T., *Irish Law Times*; J.P., *Justice of the Peace (England)*; L.G.R., *Knight's Local Government Reports*; B. & C.R., *Bankruptcy and Company Cases*.

The other abbreviations used in modern reports are H.L., House of Lords; A.C., Appeal Court (House of Lords and Privy Council); C.A., Court of Appeal; Ch., Chancery Division; K.B., King's Bench Division; P., Probate, Divorce and Admiralty Division; C.S., Court of Session (Scotland); J., Mr. Justice (King's Bench or Chancery); L.J., Lord Justice; L.C., Lord Chancellor; M.R., Master of the Rolls; N.I., Northern Ireland; P., President of Probate, Divorce and Admiralty.]

### COMPANY LAW.

#### Re Roberts & Cooper, Limited.

##### *Preference Shareholders' Right to Arrears of Dividend.*

In 1911 a company was incorporated with a capital of £112,000, of which 4,000 were "A" preference and 4,000 "B" preference shares. By the Memorandum these shares were entitled out of profits to a fixed cumulative dividend of 4 per cent., the "A" shares having priority over the "B" shares. In a winding-up they were both entitled to receive out of the assets the sum paid up on their shares, with arrears of dividend due at the date of the winding-up, the "A" shares to have priority. The company made no profits from 1921 to 1925, and the "A" and "B" shares had received no dividends since 1921. Resolutions for voluntary winding-up were passed in 1925. The liquidation showed a surplus after paying the creditors and returning capital to the "A" and "B" shareholders. The question for the Court was what arrears of dividend, if any, they were entitled to receive.

Eve (J.) held that they were entitled to none from March, 1921, to the winding-up, such dividends not having been declared, were not due.

(Ch.; (1929) L.T.N., 51.)

#### In re Home and Colonial Insurance Company.

##### *Duty of a Liquidator.*

Maugham (J.) held that where a liquidator in a voluntary winding-up has improperly admitted a proof in a winding-up, he may be ordered to make good any loss to the creditors.

(Ch.; (1929) L.J.N., 119.)

### STAMP DUTIES.

#### Stanyforth v. Inland Revenue Commissioners.

##### *Voluntary Disposition.*

By sect. 74 (1) of the Finance Act, 1910, any conveyance or transfer operating as a voluntary disposition *inter vivos* is chargeable with the same stamp duty as if it were a conveyance or transfer on sale, with the substitution in each case of the value of the property conveyed or transferred for the amount or value of the consideration for sale.

The Court of Appeal held that a voluntary disposition attracts *ad valorem* duty on the value of the property, although a power of revocation is reserved.

(C.A.; (1929) L.J.N., 44.)

### REVENUE.

#### In re Fulford.

##### *Repayment of Income Tax.*

Sect. 25 of the Income Tax Act, 1918, provides for relief from tax in respect of income accumulated under trusts.

Maugham (J.) held that income tax paid on accumulations of income during a minority and subsequently repaid by the Revenue Authorities, is the property of the beneficiary and not capital money.

(Ch.; (1929) W.N., 188.)

#### Cowcher v. Mills & Co.

##### *Surrender of Lease of Premises Used for Trade.*

The respondent company carried on business at several places, including certain premises held on a lease expiring in 1923. In 1916 the business at the last-mentioned premises proving unprofitable was closed down, and the lessor agreed to accept surrender of the lease in consideration of a sum to be paid by instalments of £250 a year, and the company issued a debenture to the lessor securing the instalments by a floating charge on all their assets. Instalments were paid regularly until 1921, when the lessor accepted a payment of £600 from the company in satisfaction of all further liability under the debenture. The General Commissioners allowed the £600 to be deducted in computing the company's assessable profits.

It was held that the payment of £600 was not an admissible deduction in arriving at the company's profits for the purpose of assessment to income tax.

(K.B.; (1929) 13 T.C., 216.)

#### Simpson v. Maurice's Executors.

##### *Collection of Income by German Bank.*

Before the war one K, who was a naturalised British subject ordinarily resident in the United Kingdom, deposited certain securities, stocks, and shares with a bank for safe custody, and the bank collected the interest and dividends and put them to the credit of K's account. From the outbreak of war in 1914 K ceased to operate the account and he died in 1916. The bank, however, continued to credit the account with the interest and dividends until 1917, when the German Government appointed a custodian to take over and administer enemies' property in Germany, and the bank then paid the interest and dividends to the custodian. K's last surviving executor died in 1921, and the respondents, the executors of such survivor, recovered the interest and dividends, together with interest thereon, through the Anglo-German Mixed Arbitral Tribunal. The respondents were assessed to income tax in respect of these sums for the years 1922-23 to 1926-27 under Cases IV and V of Schedule D on the ground that they were income arising to the respondents in those years as accrued only when received under the decree of the Tribunal.

It was held by the Court of Appeal, affirming the decision of Rowlatt (J.) (see *Incorporated Accountants' Journal*, July, 1929, p. 344) that the dividends and interest accrued in the years when they were paid into the bank, and it was now too late to make assessments in respect of the years before K's death, and as to the years after his death assessments could be made only so far as the assessments were in time, and that the further sum paid as interest thereon under the decree of the Tribunal was not income but was compensation comparable to damages for detention of a chattel, and therefore was not assessable to income tax.

(C.A.; (1929) 45 T.L.R., 581.)